Restricted to VTI's trainees

COMPUTER APPLICATIONS FOR BUSINESS

Trainee Manual-I

SUCCESS THROUGH SKILL
PUNJAB VOCATIONAL TRAINING COUNCIL

Punjab Vocational Training Council

Computer Application for Business

Trainee Manual

Punjab Vocational Training Council

FOREWORD

The Punjab Vocational Training Council (PVTC) was established in June 1998. The objective was to give need based demand driven technical training to enhance government noble endower of poverty alleviation. For this purpose PVTC has developed curricula for various courses to cope with the growing demand of industrial, agriculture and services sector, keeping in view the modern technology.

Due to IT revolution world has become global village. The promotion of applications of information technology is the trend in current world economic and social development and the key link to upgrading industrial structure.

The Punjab Vocational Training Council, as part of national policy intend to develop a strategy for IT infrastructure development, software development, value added services and capacity building to support his objectives of turning Pakistan into a knowledge society and also an active player in global economy through the use of technology. The emphasis is to make Pakistan a developed country in shortest possible time by using our skilled human resource.

PVTC recognizing the increasing influence of IT in our country in the first instance, encouraged to acquire computer literacy as an initial step to build leadership, understanding and support for introduction and implementation of a comprehensive IT programme. The aim is to produce skilled worker to speed up the development of information industry and service industry, as promotion of information technology is the trend in current world economic and social development and necessary to upgrading Pakistan’s industrial and service structure. The information infrastructure is a preferential task for national economic and social development.

The information technology should be used extensively in all circles of society and use of computer and the Internet is wide spread. Information technology is being used in various sectors including governmental administration & management, public service, enterprise management and daily operations. The IT is being implemented in integration of networks of Telecommunication, TV, Banks, Shopping outlets and other business sectors.

The PVTC has taken the step to impart IT education and its application to business including industrial and commercial enterprise.

This curricula will go along way towards overall improvement of this standards of skill trainee and ultimately in poverty alleviation.

Thanks to the efforts of the following: -

1. Mr. Muhammad Shakil, Manager Curriculum, PVTC, Lahore.
2. Mr. Shahid Saleem, Senior Instructor Computer, VTI, Township, Lahore.

Suggestions for improving this curriculum are most welcome.

SAJID NASEER KHAN GENERAL MANAGER	**SIKANDAR M. KHAN** CHAIRMAN PVTC

Table of Contents

LIST OF TOOLS/EQUIPMENT

Sr. No.	Description	Quantity
1	Main server, branded and adequately configured to support 20-25 workstations, with Windows NT server 4.0, Proxy Server (in case of internet)	1
2	PCs for workstations adequately configured, with Windows NT Workstations 4, with UPS.	25
3	Dot matrix printer	1
4	Printer laser jet	1
5	Printer ink jet	1
6	Scanner flat bed	1
7	Networking accessories: Ethernet hubs, networking cards, cables, face plates, cabinet etc.	As required
8	Tables, chairs for workstations	25 sets
9	Laboratory, adequately designed for computer usage, air-conditioned and dust proved, with complete wiring and electrical fittings.	24’ x 50’
10	Additional tables etc for hubs, printers etc.	As required
11	White board, markers etc	1
12	Diskettes, stationary, refills, cartridges etc	As required
13	Common tools for maintenance	1 set
14	Software: Latest MS office 2000, Inpage, visual basic, Corel Draw, Flash, Peachtree, Account Express, MS publishing	1 package each
15	Manuals	Complete set
16	Reference books	As & when required

DETAIL CONTENTS OF COMPUTER APPLICATION FOR BUSINESS

A. Basic Computer Applications

Sr.#	Topics	Training Hours	
		Theory	Practical
1	**Introduction to Computer System**	10	0
	History & Development		
	Definition		
	Application		
	Function units		
	Memories		
	Division of system		
	Hardware / software		
	Classification		
	Input output devices		
	Printers		
2	**Microsoft Windows**	20	60
	Definition of operating system		
	Interface		
	Desktop		
	Program menu		
	Task bar & folders / icons		
	Help		
	Managing files and folders		
	Windows explorer		
	Displaying & hiding files		
	Operation on recycle bin		
	Adding & removing softwares		
	Plug & play installation		
	Managing printer queue		

Sr.#	Topics	Training Hours	
		Theory	Practical
3	**Microsoft Word** Document window Word menu bar Ruler Document view, management, protection Text & graphic editing Symbols & characters Finding, formatting & replacing a font Text effect, replication Document proofing & language tools Inserting objects	35	120
4	**Microsoft Excel** File management with excel Entering & managing data Selection, managing worksheets Design of formula Formatting the data Magic's of handle Moving the contents of a cell Working with functions Creating charts (pie chart, bar chart, 3D chart	35	120
5	**Microsoft Power Point** Basic elements Tool bars & formatting View Text effects Drawings	40	120

Sr.#	Topics	Training Hours	
		Theory	Practical
	Clipart		
	Word art		
	Graphics		
	Animations & sounds		
	Inserting tables		
	Printing handouts		
	Slide shows		
6	**Microsoft Access**	40	120
	Creating tables		
	Tables structure		
	Primary key		
	Normalization		
	Access IDE		
	Sorting, replacing & changing data		
	Changing table design		
	Creating forms		
	Creating & formatting reports		
	Relationships		
	Queries		
7	**In-Page**	40	120
	Start Inpage		
	New document		
	Object in Inpage		
	Formatting		
	Picture box		
	Graphic box		
	Using drawing		

Sr.#	Topics	Training Hours	
		Theory	**Practical**
	Spacing & alignment		
	Inserting English words		
	Working with tables		
	Insert menu		
	Total	**220**	**660**
Total A = 880			

B. Applications for Business

Sr.#	Topics	Training Hours	
		Theory	**Practical**
8	**Business Environment & legal forms of business**	20	20
	Nature & scope		
	Legal forms of business		
	Ownership		
	Private / public limited company		
	Partnership		
	Cooperative society		
	Company form of organization		
	Formation of registered firm and stock company		
	Sole proprietorship		
9	**Business Management & HR system**	20	20
	Organs of company		
	Letter writing techniques		
	Business Reports		
	Reports writing		
	Levels of management		
	Job description		

Sr.#	Topics	Training Hours	
		Theory	Practical
	General discipline		
	Management approach		
	Management rules		
	Hiring & firing, interviews		
	Trainings		
	Incentive, honorarium, compensation		
10	**Inventory Resource System & Management**	20	20
	Definition		
	Perpetual inventory system		
	Periodic inventory system		
	Key terms of inventory		
	Taking physical inventory		
	Inventory ordering		
	Fixed interval re ordering		
	Leasing		
	Just in time inventory system		
	Fore casting		
11	**Business Marketing & Sales**	20	20
	Marketing definition		
	Needs & wants		
	Product & service		
	Demand management		
	Customer relationship		
	Consumer behavior		
	Cultural factors		
	Definition of salesmanship		

Sr.#	Topics	Training Hours	
		Theory	**Practical**
	Qualities & factors of good sales person		
	Sales promotion tools		
	Channels of distribution		
	Advertising		
	Personal selling		
	Types of sales man		
	Retailing		
	Whole selling		
12	**Business & Economic Trade Terms / Description**	20	20
	International commercial terms		
	LOC		
	Pricing & payment terms		
13	**Business Communication & Business Logistics**	20	20
	Process of communication		
	Principles of business communication		
	Preparing effective messages		
	Form & style of letters in business		
	Inquiries & replies		
	Oral presentation		
	Telecommunication		
	Transportation		
	Rail, road, air freight, shipping		
14	**Assets and Costs**	20	20
	Introduction to costs		
	Cost behavior		
	Flow of cost		

Sr.#	Topics	Training Hours	
		Theory	Practical
	Cost accumulation method		
	Process cost accounting		
	Definition of assets		
	Types of assets		
	Assets depreciation		
	Assets liquidity		
15	**Desktop Publishing (softwares)**	70	230
	Flash		
	Corel draw		
	Adobe Photoshop		
16	**Accounts**	70	230
	Accounting terminologies		
	Cash book		
	Account equation		
	Ledger		
	Bank reconciliation statement		
	Total	**280**	**600**
Total B = 880			

C. Common Courses

Sr.#	Topics	Training Hours	
		Theory	Practical
17	Common Course	40	0
18	Business English & Office Management, Filing System, Office Machines and Computer Peripherals	20	100
	Total	**60**	**100**
			Total C = 160

Grand Total = (Total A + Total B + Total C) = 880 + 880 + 160 = 1920

Chapter 1

Business Environment & Legal Forms of Business

- *Nature & scope*
- *Legal forms of business*
- *Ownership*
- *Private / public limited company*
- *Partnership*
- *Cooperative society*
- *Company form of organization*
- *Formation of registered firm and stock company*
- *Sole proprietorship*

Meaning of business

Business means busyness or state of being busy.

In economic sense

1. Business means activities of people, which are connected, with the production of wealth.
2. Business is the gainful producer through which individuals and group exchange goods and services among themselves.

From above definitions we concluded that business means production, purchase and sale of goods, services and ideas for the price.

Nature and characteristics of business

Competition

Business boasts up the competition in the market. Business retains the competition on itself in the shape of quality product and selling techniques.

Demands

Consumer is called the king of market. So every business must produce those goods, which are demanded by consumer. If goods, which are produced by the business, are not demanded by people then business may come to an end.

Entrepreneur

Entrepreneur means a person who starts the business. So every business must involve an entrepreneur.

Finance

Finance is the blood of business. Every business required funds to meeting the fixed and working capital requirement.

Money

Business without money cannot be run. So a business must involve money either in cash or in other kind.

Marketing

Marketing success is necessary for the success of business. With the help of the marketing we come to know what type of goods are demanded by the people and at what price.

Nature

The nature of every business in not same. Such as some business produce the cosmetics and some manufacture the furniture.

Organization

Organization plays very important role in business. Success of business is the cause of efficient organization. The workers co-ordinate their work to obtain successful business objectives.

Production

A business deals in production system a business can make progress. It means every business needs the well-planned system.

Planned system

Only under a well-planed system a business can make progress. It means every business needs the well-planned system.

Profit

Business must be run for profit. If any work is done free of cost cannot be called business.

Risk

In business risk is always exist because of variation in market conditions.

Society

Goods and services are sold to society. If any thing is produced for personal use then this activity will not be treated as business.

Service of deal

There must be series of deal in business. It means there must be regular work of purchase and sale of goods and services. For example if a person sells furniture of his personal use and earn profit that is not called business.

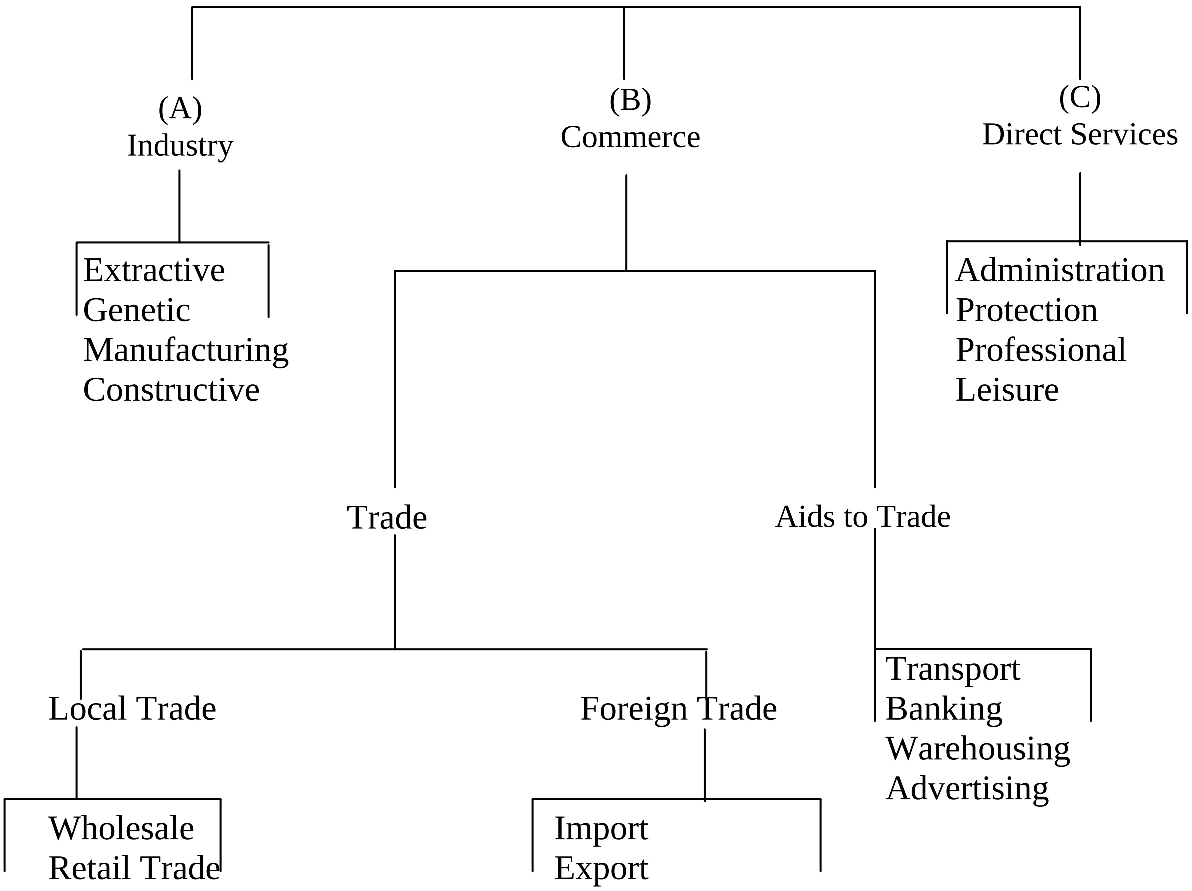
Sale

Every business must sell the goods and services to people for price.

Satisfaction

A business must produce the goods according to the taste of people in order to satisfy them. If business fails to do so then it will be hard for business to continue its operation.

Branches/scope/division of business



Industry

Industry means those activities, which are related with the production of goods or services. The industry produces the goods for selling purpose or for further production purpose. Goods that are used by the final consumer are called consumer's goods and goods that are used by the producer in production of other goods are called producer goods.

Commerce

Commerce means buying and selling of goods and it also include the provision of service, which facilitate buying, and selling.

In other words

The process of buying, selling and all those activities, which facilitate trade such as strong, grading, packing, financing, insuring, and transporting are, called commerce.

Components of commerce

There are two components of commerce

1. Trade
2. Aids to trade

Trade

Buying and selling of goods are called trade. Trade means those activities that are helpful for transferring the goods from the seller to the buyer.

Types of trade

a. Local trade

Buying and selling of goods within the country is called the internal trade.

- **(i) Wholesale trade**
  Wholesale trade includes the purchase of goods from the producer and selling them to retailers.

- **(ii) Retail trade**
  Retail trade includes the purchase of goods from the whole seller and selling them to consumers.

b. Foreign trade

Buying and selling of goods outside the country is called the external trade.

- **(i) Import trade**
  If good are purchased from the foreign country that is called import trade.

- **(ii) Export trade**
  If goods are sold to foreign country that is called the export trade.

Who is Businessman

In simple words we can say that:
A person who invests efforts or money to carry out some legal or lawful activities in order to earn money and profit.

Main kinds of businessman

According to business structure

There are two main kinds of businessman according business form

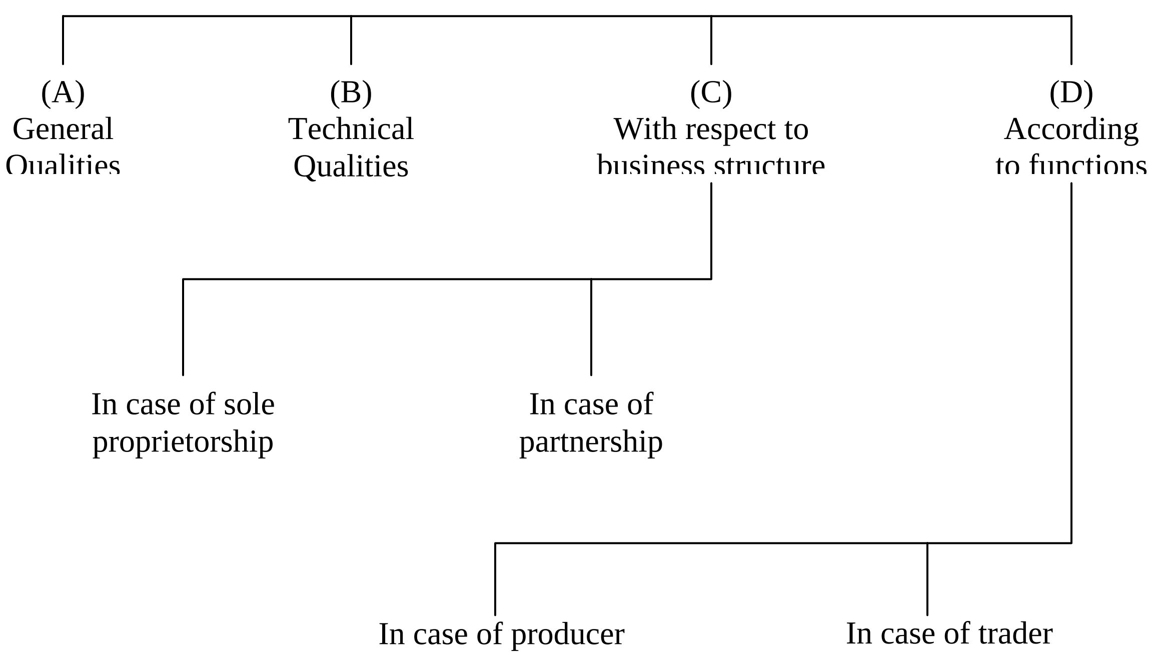
1. Sole businessman
2. Partner

According to function

Two common kinds are

1. Producer
2. Trader

Qualities of good businessman



Qualities of a Businessman

In case of sole proprietorship

a. Delegation of authority

A sole businessman must able to delegate the authority towards his helpers in order to run the business smoothly.

b. Strategic planning

He should be able to make the strategic planning in order to avoid unnecessary risk.

c. Unnecessary competition

Because of that a sole businessman has limited resources so that he should avoid unnecessary competition.

d. Hard working

A sole businessman should be a hard worker so that he can run business smoothly.

In case of partnership

a. Faithful

He must be faithful to his partners.

b. Work for progress

He must work for the progress of business. He should not run the business only for his personal benefit but for all partners.

c. Secrets

He must not open the business secrets to outside in order to get his personal benefit.

d. Responsible

He must be a responsible person because he is the representative of all.

Qualities According To Functions

In case of producer

a. New methods of production

He must be able to adopt the new methods of production in order to produce better and quality product and services.

b. Reduced cost

he should reduce the cost of product so that he earns maximum profit and provide the goods at low price.

c. Knowledge of costing

He must be able to know the cost of product as per unit and at the each phase of process.

d. Division of cost

He must be able to divide the cost in to fixed an variable in order to have break even (where he can recover his fixed cost completely) in terms of money and unit.

e. Planned production

He should produce the planned production in order to avoid the risk of shortage and surplus.

In case of trader

a. Considering the risk factor

A good businessman must consider the risk factor so he should insure his trade in order to get rid off from non-operational damages.

b. Price charging planning

he must charge the price of goods within the reasonable limit. So that he can increase the demand of good sand to raise his revenue.

c. Inflationary factors

A good businessman must have deep knowledge over inflationary factors to facilitate purchase and selling.

Partnership

Introduction

Partnership is the 2nd stage of business organization. When two or more persons run a legal business for earning profit, it is called partnership.

Definitions

1. The relation between persons who have agreed to share the profits of a business carried on by all r nay one of them acting for all.

2. An association of two or more persons to carry on as co-owners of a business for profit.

3. A partnership is a legal form of contract between two or more competent persons to associate themselves, in the common ownership and management of lawful business enterprise.

Elements of partnership

The definition of partnership contains the following elements:

- ✓ Partnership is a relationship between certain persons.
- ✓ Who have entered into an agreement.
- ✓ To carry on business for earning profit.
- ✓ The business must be carried on by all or any of persons concerned acting for all.

Characteristics of partnership

The main characteristics of partnership are as follows:

1. Agreement

Partnership business is created with an agreement. Without the agreement the partnership firm is not possible.

2. Balanced decisions

The decisions are made in this business according to the mutual consent of all the partners. So the decisions are quite balanced.

3. Credit standing

The partnership firm enjoys the highest credit facilities because the private property of partners is also liable for business debts.

4. Combined managerial skill

It is true that two minds are better than one mind. As there are many partners therefore they have managerial skill, which is beneficial for partnership.

5. Classification of partners

Partners may be classified in to different kinds, just as active partner, sleeping partner, junior partner, and senior partner.

6. Chances of dissolution

Partnership may be dissolved on the happening of certain events. The death, insolvency or any other unhappy incident may cut short the life of partnership.

7. Conduct of business

The business of partnership is conducted by all partners or any of them acting for all. But in all this matter each partner is legally allowed to participate in the management of the business.

8. Combined abilities

As there are number of partners, so this form of business enjoys combine abilities of several heads. This made the partnership business more effective.

9. Duration of partnership

Partnership is always for an indefinite period of time. Though some partnership are also formed for the completion of particular venture.

10. Easy formation

The formation of partnership firm is very easy. Two or more persons may start this type of business at any time.

11. Entity

This business has no separate legal entity apart form its members.

12. Free operation

As there are no strict rules and regulations in this type of business, therefore this business is freely operated.

13. Flexibility

The business of partnership is flexible as compare to company. In need it may be changed with the mutual consent of the partners.

14. Investment

In partnership each partner contributes his share in the capital according to the agreement. Some partners may become partners without any capital, but they invest their time, energy, experience abilities in the business instead of capital and receive profit.

15. Large amount of capital

In partnership business the amount of capital is large due to more than one partner.

16. Legislation

There is a separate legislation to control and supervise the partnership activities. In our country it is controls under the partnership act 1932.

17. Mutual confidence

Partnership business is sum on the mutual confidence among the partners. Each partner has the trust and confidence in each other.

18. Number of persons

There are minimum two and maximum 20 partners in a firm.

19. No audit

It is not necessary for partnership firm to audit its accounts.

20. Object of business

The object of partnership business is to carry on any type of legal business. It may be wholesale, retailer ship, production or distribution.

21. Principal agent relationship

Each partner in the business is the agent of the other partners and each partner is the principal.

22. Personal interest

As the liability of each partner is unlimited, therefore they are vitally interested in the success of business.

23. Profit motive

The basic motive of the formation of partnership business is to earn profit.

24. Protection

Although the registration of the partnership business is not compulsory, but if a firm is registered then the law also protect it.

25. Payment of tax

Partnership has to pay tax only at on time, i.e. at the time of distribution of profit among the partners. But in company tax is paid twice.

26. Reduced losses

In case a firm suffers losses, it is shared among the partners. The risk is, therefore reduced.

27. Sharing of profit

The partners share the profit and loss derived from the business. It is divided as per the agreed ratio.

28. Share in capital

Every partner has share in capital.

29. Transferability of share

The share cannot be transferred by any partner to any other person, as there is a restriction on transferring the share.

30. Unlimited liability

The liability of each partner is unlimited which means that in case of heavy loss, the private assets of the partners would also be liable to pay the business debts.

Advantages

The following are advantages of partnership.

1. Careful decision

In partnership careful decision are taken through discussion and consultation.

2. Credit facilities

Partnership firm enjoys the highest credit facilities because the liabilities of partners are unlimited. Therefore creditors easily agree to give loan to partnership firm.

3. Easy formation

The formation of partnership is very easy. There are no complicated formalities required to start this type of business. But formation of Joint Stock Company is needed the long and complicated process.

4. Easy dissolution

There is no complicated process for dissolution of partnership firm. Partners may dissolve their business very easily at any time but this facility in not available in Joint Stock Company.

5. Elimination of competition

Partners are combined to run a business with their combine efforts. So competition among partners is eliminated.

6. Easy exits or easy entry

It is easy for any partner to leave the partnership and is also easy to join the partnership business with the consent of all partners.

7. Direct relation with workers

Partners have direct relation with workers because the worker is limited.

8. Flexibility management

This organization is flexible as compared to Joint Stock Company. Partners can change their business policy according to business activities.

9. Expansion of business

Partnership business can be expanded due to large capital and unlimited liabilities.

10. Joint efforts

Partnership business is carried on by the join efforts of partners and the joint efforts are the base of success of a business. There is an old saying that.
"TWO HANDS ARE BETTER THAN ONE"

11. Lack of legal rules

The law does not impose the following restrictions on partnership.

- ✓ Declaration of profits as in companies.
- ✓ Submission of report to the registrars' office.
- ✓ Audit annual accounts
- ✓ Call meetings
- ✓ Pass the various kinds of resolution.

12. Minority protection

There is minority protection in partnership because all matters are decided with the consent of each partner.

13. No risk of fraud

There is no risk of fraud in partnership because every partner can check the accounts.

14. Personal interest

Liability of each partner is unlimited in this firm; therefore they take keen interest in success of business. But join stock company is not in better position in respect of personal interest.

15. Reduced losses

In case of firm suffer losses it is shared among partners. The risk is therefore reduced.

16. Secrecy

It is not necessary for partnership firm to publish its accounts. So business secrecy remains confined within the partners. But public company has to publish all types of accounts by law.

17. Spirit of co-operation

Partnership creates spirit of co-operation among partners because they know that in absence of spirit of co-operation business may come to an end.

18. Skilled workers

As firm enjoys the large financial resources therefore it is possible for it to hire the services of qualified and competent persons.

19. Tax facilities

Partnership firms have not to pay double taxes. But Joint Stock Company pays double taxes i.e. collectively and individually.

Disadvantages

The following are disadvantages of partnership

1. An old proverb

There is say that: “every body business is no body business”

2. Dispute between partners

The partners should be cool minded and cooperative. Because there are more chances to miss-understanding, friction and dispute among partners, which hamper in progress of firm

3. Delay in decision

In partnership often decision are delayed because some times partners do not agree with each other's proposal.

4. Frozen investment

It is easy to invest fund in partnership but very difficult to withdraw it.

5. Hesitation

The rich and wealthy persons feel hesitation to invest in partnership due to unlimited liability.

6. Lack of public confidence

People show the less confidence in this form of business because in partnership firm, it is not required to publish the accounts.

7. Lack of continuity

If any partner dies, become bankrupt or falls sick the firm will be dissolved.

8. Lack of interest

Partners do not take keen interest in business activities or firm because the share of profit or loss of each partner is limited.

9. Lack of secrecy

In partnership all partners know the internal affairs or partnership so there are great chances of leakage at the time of disagreement or retirement of partner.

10. Limitation in size

Because of legal ceiling to the number of partners, large-scale business cannot be run by this organization.

11. Limited capital

The capital of this firm is limited because number of partners is limited. Therefore it is impossible to start the large size business.

12. Unlimited liability

The liabilities of partners are unlimited. Therefore in case of insolvency the private property of partners also called for.

13. Risk of loss

There is great risk of loss in partnership firm because unskilled person conducts the management. In case of heavy losses business may come to an end.

14. Transferability of share

No partner can transfer his share to any other person without the consent of all existing partners. But if any partner does it, the firm may be dissolves.

15. Uncertainty

Future of partnership business is uncertain. Due to miss understanding or death of a partner, the business ends.

Registration of firm

Application for registration

Application for registration of the firm is submitted to the registrar of partnership firm on the prescribe form. Following documents must be submitted to registrar with application form.

(i) Partnership deed.
(ii) Registration form
(iii) Challan form
(iv) Registration certificate
(v) Changes in firm

(i) Partnership deed

Partnership deed means a partnership agreement and the copy of this agreement must be submitted to registrar.

(ii) Registration form

Application for registration is given after filing the registration form. Following information is given in registration.

a. Name of firm
b. Place of firm
c. Nature of business
d. Names and addresses of partners
e. Duration of business
f. Name and head office of firm
g. Name of sub office of firm
h. Dates on which partners join the firm
i. Signature of each partner

(iii) Challan form

Required registration fees are deposited with the help of challan form. After depositing the fees, one copy of challan form must be submitted to the registrar.

(iv) Registration certificate

After receiving all above documents, registrar examines the information provided on the application form if he is satisfied then issues the registration certificate.

(v) Changes in firm

If a firm wants to change the number of partners, their addresses or places of business, the registrar will notify in record, if he is satisfied.

Advantages of registration

Legal advantages

General advantages

Legal advantages

The following are the legal advantages of registration of firm.

1. Protection of rights

The rights of new partners are safe guarded by law. He can file a suit against his co-partners for his dues.

2. Protection to retired partner

When a partner is retired in registered firm then he send a notice of retirement to registrar and after the notice he is free from liability. In unregistered firm he is liable for business debts.

3. Protection to deceased partner

In registered firms, the deceased partner or his successors are not liable of business debts incurred after death. But in case of unregistered firm the heirs of the deceased partner are liable for business debts.

4. Protection to creditors

Registered firm maintains the complete and up to date records of amount payable to creditors. So there are no chances of misunderstanding about amount due to creditors. In registered firm no partner can deceive the creditors and the amount of creditors is fully safeguarded.

5. Legal protection

Govt. provides various facilities to registered firms to protect their business. In other words, a registered firm has full legal protection. Registered firms work according to rules and regulations. So these run the business without any fear.

6. Right of suit against third party

Registered firm has a right to file suit against third party for recovery of his dues. But this facility is not available to an unregistered firm.

7. Settlement of claims

Registered firms can file suit against third parties for the recovery of its dues. So it means the rights of registered firms are safe guarded by law.

8. Tax facility

Tax is charged on profit of partners of firm individually. But in unregistered firm the tax is charged on the whole of its income. So the registered firm has to pay the low taxes.

General advantages

9. Loan facilities

Registered firm can easily, obtain loan from financial institutions because financial institutes easily trust on registered firms.

10. Public confidence

A registered firm enjoys the more public confidence than unregistered firm because they think that registered firms are working under the supervision of court and there are no chances of fraud.

11. Business reputation

Registered firms enjoy the good business reputation as compared to unregistered firms. No any other business can copy of its product, which makes it more profitable.

12. Goodwill

The goodwill of business of registered firms is more than unregistered firms. So due to this the registered firms earn the higher profit.

13. Settlement of dispute

If any dispute arises among the partners, registration is basic legal document for settlement. In unregistered firm if any dispute arises among the partners then firm may come to an end.

Effects of Non Registration

The effects of non registration are as follows:-

1. Disability to firm

The unregistered firm cannot file a suit against the third party for the recovery of dues, which is the main drawback of the unregistered firm.

2. Disability to partners

Partners of unregistered firm cannot file a suit against his co-partners for the recovery of their dues.

3. Ability against firm and partners

The third party has full right to file suit for the recovery of their dues against the unregistered firm and partners.

Kinds of partners

(A) According to age
- Minor Partner
- Major Partner

(B) According to experience
- Senior Partner
- Junior Partner

(C) According to responsibility
- Limited Partner
- Unlimited Partner

(D) According to management
- Nominal Partner
- Sleeping Partner
- Active Partner
- Secrete Partner

(E) Other partner
- Quasi Partner
- Holding out Partner
- Salaried Partner
- Insolvent Partner
- Partner in Profit only
- Deceased Partner
- Retired Partner
- New Partner

Duties of partners

The following are the fundamental duties of partners according to partnership 1932.

1. Abide the decision

Every partner must abide by decision taken by majority partners.

2. Abide by agreement

It is the duty of every partner to abide by agreement, which is done.

3. All information

As one partner is an agent of an others so he must provide all types of information to all other partners.

4. Compensation for loss

If any partner commits a fraud to his co-partners then he must compensate them for any loss caused to them by his act.

5. Firm’s name

A partner must not use the firm’s name for his personal benefit.

6. Firm’s property

A partner must not use the firm’s property for his personal use.

7. Indemnity

Every partner is bound to indemnify the firm for any loss caused by his fraud in the conduct of the business of firm.

8. No remuneration

It is duty of every partner not to receive the salary or commission against providing his services in the conduct of business.

9. Parallel business

No partner is allowed to start separate business of that type in which he is partner. The act does not give him permission to start parallel business.

10. Payment of profit to firm

It is the duty of every partner that if he earns any profit from any source of firm then should pay it to firm.

11. Sincere and careful

It is the duty of every partner that he must be sincere and faithful to other partners.

12. Secrecy

Secrecy is the base of success of business and it is the duty of every partner to maintain the secrecy of business.

13. Share in loss

It is the duty of every partner that he bears the loss equality in the absence of agreement. But if there is an agreement then he should bear the loss according to the agreement.

14. True services

It is the duty of every partner that he must performs the true services i.e. to maintain the true accounts.

Rights of partners

The following are the rights of partners according to partnership act 1932.

1. Act as an agent

Every partner has a right to act as an agent on behalf of remaining partners.

2. Admission of new partner

Every partner has a right to block the admission of new partner because the new partner cannot be admitted in the firm without the consent of all partners.

3. Competing business

An out going partner has a right to start the separate business of that type in which he was partner.

4. Expression of opinion

Every partner has a right to express his opinion before the matter is decided, but no change may be made in the nature of a business without the consent of all partners.

5. Emergency action

A partner is allowed to take any emergency action to protect the business from loss.

6. Inspection of books

Every partner has right to inspect the books of accounts and record. He is not bound to take permission of any one.

7. Interest on loan

Every partner has right to receive 6% interest on loan, which he has given to business.

8. Issue of receipt

Every partner has a right to collect the business debts and issue the receipt.

9. Interest on capital

No partner has right to take any interest on capital if it is decided in partnership deed.

10. Old liabilities

An incoming partner has right not to make the payment of those debts and liabilities of business, which are before the date of his admission.

11. Right of salary

A partner has a right to receive the salary for performing his duties in the management of the business if it agreed in partnership deed.

12. Right of participation

Every partner has a right to take part in the management of business.

13. Right to continue

Every partner has a right to continue his partnership with firm. He cannot be expelled from partnership without any solid reason.

14. Right of retirement

Every partner has a right to retire from firm as per agreement or by giving the notice to all other partners.

15. Right to receive profit

Every partner has a right to receive the equal profit, which is earned by business.

16. Subsequent profit

An outgoing partner has right to receive profit on his assets, which are still in business.

Liabilities of partner

The following are main liabilities of partners according to partnership act 1932.

1. Joint liability

All partners are jointly liable for all business debts.

2. Liability of new partner

A newly admitted partner is not responsible for any debts or transactions happened before his date of admission.

3. Liability of retire partner

A retiring partner is liable for the debts incurred before the date of his retirement.

4. Liability of deceased partner

The property of deceased partner cannot be held liable for any obligation incurred by firm after his death.

5. Liability of insolvent partner

The estate of insolvent partner is not liable for any obligations of the firm after the date on which order of insolvent is issued.

6. Liability for fraud

Every partner is bound to be liable for wrongful act.

7. Liability for losses

In the absence of agreement each partner will contribute all losses equally.

8. Liability of expelled partner

An expelled partner is not liable for the debts and losses of the firm arising after his expulsion.

Meaning of dissolution

Dissolution means the end of life of business.

Type of dissolution

Dissolution has two types:

1. Dissolution of firm
2. Dissolution of partnership

1. Dissolution of firm

The dissolution of partnership between all the partners of the firm is called the dissolution of firm. When firm is dissolved, its assets are sold an liabilities are paid but if any balance is left then that is distributed among the members of the firm.

2. Dissolution of partnership

If a partnership is dissolved without dissolving the firm, is known the dissolution of partnership. For example, suppose there are four partners A, B, C, and D in a firm. Partner A dies, retires, or is adjudged insolvent but remaining partners continue their business.

Ways of dissolution

- (1) Compulsory Dissolution
  - Insolvency
  - Unlawful Business
- (2) Dissolution By Notice
- (3) Dissolution By Agreement
- (4) Contingent Dissolution
  - a. Expiry of period
  - b. Completion of venture
  - c. Death of partner
  - d. Insolvency of partner
  - e. Insolvency of partnership
  - f. Retirement of partner
- (5) Dissolution by court
  - a. Misconduct of partner
  - b. Unsound mind
  - c. Transfer of shares
  - d. Assurance of loss
  - e. Breach of contract
  - f. Any other grounds

1. Compulsory dissolution

The following are the grounds for compulsory dissolution.

a. Insolvency

When any partner becomes insolvent, the firm will be dissolved.

b. Unlawful business

Where such an event has happened which makes it unlawful to carry on partnership business then the firm will be dissolved.

2. Dissolution by notice

If a partnership firm has been formed for an undefined time, it may be dissolved by any partner giving the notice to the other partner of his intention dissolve the partnership. The notice must be written. The notice once given can be withdrawn with the consent of all partners.

3. Dissolution by agreement

If a firm is dissolved with the consent of all partners then it is called dissolution by agreement. This is also known as voluntary dissolution.

4. Contingent dissolution

A partnership firm may be dissolved due to the following reasons.

a. Expiry of period

On expiry of period, which it was established, the firm will be dissolved.

b. Completion of venture

On the completion of venture for which it was found the firm may be dissolved.

c. Death of partner

On the death of partner, the partnership firm may be dissolved.

d. Insolvency of partner

When the court of law adjudicated partner as an insolvent.

e. Insolvency of partnership

When the partnership itself has been declared as an insolvent then firm will be dissolved.

f. Retirement of partner

On the retirement of partner, the partnership may be dissolved.

5. Dissolution by court

The court due to the following reasons may dissolve partnership firm.

a. Misconduct of partner

Where a partner is guilty of misconduct in the operation and conduct of business then court may issue the order for dissolution.

b. Unsound mind

Where a partner has become of unsound mind then any person can go to court and the court may issue the order of dissolution of partnership.

c. Transfer of shares

If a partner transfers his share to third person in partnership without the consent of all other partners then court may issue the order for dissolution.

d. Breach of contract

When a partner commits breach of agreement relating to the business then partnership may be dissolved.

e. Assurance of loss

When the partnership firm cannot be carried on except of loss.

f. Any other grounds

The court may issue the order of dissolution of the firm on any other grounds considered fit by the court of law.

Cooperative Societies

Introduction

Co-operative societies are formed for the help of poor people. In 1844 the movement of co-operative society was started.

A cooperative society is a form of organization in which economically weak joint together for the protection of economic interest. Its main object is not to earn profit but to renders the services to its members.

Advantages

1. Better Standard of Living

Cooperative society supplies goods to its member at very low rate. So it helps in raising the standard of living of the members.

2. Complete Integration

There is a complete integration between whole seller, producer and retailer. This is a very important advantage over any capitalistic enterprise.

3. Economy in Expenditure

There is no need of specialist persons for the production and distribution. Top-heavy management is not required.

4. Educative Value

Spirit of sacrifice, sense of mutual help and self-help are developed among the members. They are able to adopt the principles of honesty and unity.

5. Elimination of Middlemen

Consumers control their own supply of goods and eliminate the profit earned by the middlemen.

6. Employment Opportunities

Thousands of persons are doing in cooperative society so it removes the problems of jobs.

7. Equal Status

In cooperative society all members enjoy equal status. All the members are owners, managers and workers of society.

8. Equal Distribution

In cooperative society no profit is given to a special class of investors. All members have therefore equal share in profits.

9. Easy Formation

Formation of cooperative society is very easy. 10 adult persons can form a cooperative society.

10. Economic Development

Cooperative societies play very important role in economic development. These societies increase the output in the country.

11. Friendly Relations

Cooperative societies create the friendly relations among members. they live in same area and society provides them a plate-form for the introduction of members with each other.

12. Financial Assistance

The cooperative extends loan facilities to the agriculturists for the purchase of inputs. It also gives financial assistance to the members for the construction of houses.

13. Limited Liabilities

The liability of each member in cooperative is limited to share capital invested by him.

14. Long Life

Cooperative society has long life because it can only be dissolved through the procedure of law.

15. Non Speculative Purchase

A cooperative store knows the requirements of its members and as such there is no risk of loss on speculative buying.

16. No Monopoly

Cooperative societies are formed for the welfare of people. So these societies eliminate the monopoly in the country. It is said that the start of society is the end of monopoly.

17. Saving Habits

Cooperative societies create the savings habits among members. Saving is necessary for investment and without saving and investment a country cannot be developed.

18. Tax Advantage

Government provides the certain concessions to this form of organization such as stamp duty, income tax and registration fee.

19. Vast Market

Cheaper rates may attract a large number of members.

Disadvantages

Disadvantages of cooperative society are given below: -

1. Absence of Profit Motive

The absence of profit is a handicap in the progress of a cooperative firm.

2. Adoption of New Techniques

A cooperative society cannot adopt the new techniques due to its limited resources. It produces the goods of old fashion, which are not liked by members.

3. Chances of Loss

There are more chances of loss in society because generally the management of society remains in the hands of selfish and dishonest members and they take undue advantages of their powers, which results in loss to society.

4. Depend Upon Government

The cooperative in Pakistan is dependent upon Government for protection and financial support.

5. Inefficient Management

Society has limited resources and cannot afford to hire the services of skilled persons.

6. Lack of Interest

Generally paid persons who have no share in profit conduct the business. There is thus absence of interest, which hampers the smooth running of society's business.

7. Lack of Prompt Decision

The management committee makes decisions in cooperative firms. Thus control and authority passes to many persons. So it cannot act with promptness.

8. Lack of Spirit

There is lack of spirit of mutual cooperation among the members of society. They do not know the principles of cooperation, the result of which is not better.

9. Lack of Capital

Generally its members are poor and they cannot invest large amount of capital.

10. Lack of Public Confidence

It is not required for cooperative society to publish annual accounts and the accounts are not audited. So people do not rely on such societies.

11. No Secrecy

The secrecy is not possible in cooperative societies. All members of society live in same area and daily discuss the problems of society. All members know all the secrets.

12. Non Applicable

Cooperative principles cannot be applied in those industries in which highly skilled persons are required and in which goods are usually sold on credit basis.

13. Services

The cooperative societies cannot hire the services of skilled and educated persons which a handicap in the progress of a cooperative firm.

14. Un Educated Members

The members of cooperative society are un-educated and they cannot conduct the business efficiently.

Types of Cooperative Society

The industrialists are in better bargaining position with workers and pay them less than marginal productivity. So depressed class of workers have set up the different kinds of societies to provide retail services according to their local needs. The main kinds of cooperative societies in the world are as under: -

1. Consumers Cooperative Societies

These societies purchase the goods from whole sellers or producers and sell to its members on cheap rate. The profit is distributed to the members in proportion to the purchases made by a member in a particular year. Elected managers conduct the business. If the expands then the administrative committee is organized by the members to look after the business.

Countries

The cooperative consumer's societies are functioning very successfully in Germany, England, Holland, Belgium and Denmark and some other advance countries.

Performance in Pakistan

Performance of these societies in Pakistan is not satisfactory due to following reasons:

1. Lack of Capital
2. Cooperative spirit is missing among the members
3. The persons appointed do not treat the customers properly
4. Prices of commodities do not change with the prices prevailing in the market
5. The goods are mostly lack variety.
6. The goods, which are short in the market, are undersold

2. Cooperative Credit Societies

Cooperative Credit Societies means societies, which give credit facilities. Cooperative credit societies are classified as urban and rural. The major object of these societies is to provide the short term and long term loan to its members at low rate of interest than lenders. Credit cooperative societies collect the funds from its members and also borrow the loan form the Government.

3. Cooperative Housing Societies

Cooperative housing societies are formed generally in the urban area. These societies are formed to:

- ✓ Purchase the land for the construction of houses on homogeneous basis.
- ✓ Purchase the construction material in bulk and providing on non-profit basis to the members.
- ✓ Supply the electricity gas and water.
- ✓ Provide the loan for the construction of houses by mortgaging the property.
- ✓ Leaving of tax on the members for meeting expenditure of providing them essential services.

4. Cooperative Marketing Society

Cooperative marketing societies are very useful for small producers and agriculturists. The cooperative marketing societies are of three kinds.

1. The agricultural marketing cooperative
2. The consumer cooperative
3. The agricultural purchasing cooperative

These societies provide the financial assistance to the members and helps in improving the quality of the product.

5. Cooperative Insurance

These societies are formed to provide the group insurance to its members. It may contracts with sound insurance company collectively for lower premium. The cooperative insurance society can also be organized for issuing the policies of small amount.

Performance in Pakistan

The performance of these societies has not been proved satisfactory because;

1. Funds are not wisely invested
2. Capital of the society is not looked after carefully
3. Claims are not made promptly
4. Contribution to the societies normally not adequate to pay the claims of members who suffer risk

6. Cooperative Farming Societies

The cooperative farming societies enable the small farmers to employ improve methods of cultivation. Farmers cannot use tractors, tube well, and fertilizers due to smallholding. These societies provide the improved seeds, irrigation facilities and machines to the farmers to increase there per acre yield. It collects the funds form the members and also borrows the money from various financial institutions. Liability of its members is unlimited.

7. Producer Cooperative Societies

The main object of consumer cooperative society is to eliminate the middlemen and capitalists between the producer and consumer. The members of this society produce the goods and manage the business themselves. All production process like purchase the raw material and distribution of the goods is performed under the supervision of members. Surplus production is sold in open market at profit and this profit is distributed among the members according to their investment. So these societies sold the goods to its members at low price. Producer cooperative societies have been successful in those concerns where:

1. The business is labor intensive
2. The liability of the members is limited

3. The management is efficient and honest.
4. Market of the product is guaranteed
5. The services of professional managers are not required

8. Dairy Cooperative Societies

Dairy cooperative societies are formed for the sale of milk and its product. These societies also provide the transportation services for the distribution of production to the consumers.

9. Labor Cooperative Societies

Labor cooperative societies are formed for the encouragement of unskilled laborers. These poor and unskilled laborers jointly offer their services to the employer or contractor. This labor force is used for the construction of buildings, roads and dams. Individual labors are poor and have no bargaining power. These societies protect the rights of poor laborers.

10. Miscellaneous Societies

Beside the above-mentioned cooperative societies there are large number of cooperative societies such as cooperative firm processing of raw material into finish goods (processing cooperative). The cooperative societies for fisheries, poultry farming, forestry etc.

Difference Between J.S.C and Cooperative Society

The following are the main points of distinction between the join stock company and the cooperative society.

1. Audit

a. The auditor appointed in the annual general meeting makes the audit of accounts.
b. The audit of accounts is made the registrar or by a person authorized in writing or by the registrar.

2. Borrowing Power

a. It can borrow money and raise the funds by issue the debentures.
b. It cannot borrow the money from non members by issue the debentures because it cannot issue the debenture.

3. Control

a. It is managed and controlled by the Board of Directors.
b. It is controlled and managed by its elected executive with President and Secretary at its main office.

4. Capital

a. The company increases its share capital by offering the fresh shares to its existing shareholders.
b. Admitting new members generally increases its capital.

5. Dissolution

a. Dissolution process of company is very lengthy and complicated.
b. Dissolution process of cooperative is very simple.

6. Legislation

a. It is controlled by company act 1984.
b. It is controlled by the cooperative society act 1912 or 1925.

7. Loan Facility

a. It is easy for companies to get loan from different financial institutions.
b. It is not easy for cooperative societies to get loan as compare to companies.

8. Liability

a. It must be established with limited liability.
b. It may be established with or without limited liability

9. Life

a. It normally possesses the long and perpetual life.
b. It does not possess the long life.

10. Maximum Limit

a. Maximum limit for number of shareholders is fixed by the share capital.

b. There is no restriction for maximum number of members.

11. Number of Members

a. To form a public limited company minimum seven members are required and for private limited company minimum two.
b. To form a cooperative society at least 10 members are required above the age of 18 years.

12. Object

a. Its main objects are to earn the profit.
b. Its main objects is not to earn the profit but its object is to produce and supply the goods to its members according to their requirements and look after their welfare.

13. Ownership and Control

a. There is a wide gap between ownership and control. The Board of Directors controls the affairs of the company for the shareholders who are real owner.
b. There is no difference between ownership and control. The members themselves control the affairs of the society.

14. Purchase in Limit

a. Shareholders can purchase its shares of any amount.
b. Its members cannot purchase the shares for more than one thousand rupees.

15. Profit Distribution

a. Its profit is distributed among its shareholders in the proportion to the share held by them.
b. Its profit is divided among the members in proportion to their purchase from store.

16. Price

a. Company charges the high prices for earning the high profit.
b. Cooperative society charge the low prices because it main object is not to earn profit but the welfare.

17. Personal Interest

a. In a company, the elected Directors often exploit and misuse the funds of the company for their personal interest.
b. The elected office members take keen interest in conducting of society's business. The operation is being limited, so there are less chances of misuse of funds for personal interest.

18. Public Confidence

a. People show much confidence on Joint Stock Companies because it is legally required for companies to publish their annual accounts.
b. People show the less confidence on cooperative societies because it is not legally required for societies so publish its accounts.

19. Role

a. It creates evil of monopoly and capitalism in the society and it thus concentrates the wealth in to few hands.
b. It eliminates the middlemen and capitalist group and thus equalizes the wealth distribution in the society.

20. Registration Fees

a. Registration fee is paid by companies to government.
b. Registration fee is not paid to government because the registration is free.

21. Suggestions

a. The auditors are not allowed to give the suggestions to companies.
b. The auditors are allowed to give the suggestions to a cooperative society as a guide of the society.

22. Tax Concession

a. Tax concession and other facilities are available in it.
b. Tax exemption and other facilities are available in it.

23. Transfer of Shares

a. Its shares can be transferred freely and easily.
b. Its shares cannot be transferred to the non-members

24. Value of Share

a. The face value and market value of share may be different due to limited supply of shares.
b. The face value and market value of share is not different due to unlimited supply of shares.

25. Working Area

a. It operates in a vast area so it is not possible for its shareholders to attend the meetings.
b. It operates within a limited area so its members can easily attend the meeting.

26. Withdrawal of Capital

a. It is not easy for its members to withdraw their capital from the company.
b. It is easy for its members to withdraw the capital on a short notice.

Joint Stock Company

Formation of Joint Stock Company

(A) Promotion

- Discovery of idea
- Investigation
- Verification of result
- Assembling of factors
- Financial resources
- Preparation of essential documents
- Name of company

(B) Incorporation

- Memorandum of association
- Articles of association
- List of directors
- Written consent of directors
- Prospectus
- Nominal capital
- Fees
- Statutory declaration
- Certificate of incorporation

(C) Collection of Capital

- Contracts
- Secretary
- Bankers
- Issue of prospectus
- Allotment of shares

(D) Certificate of commencement

- Shares
- Payment by directors
- Submission of prospectus
- Declaration
- Certificate

(A) Promotion

The promotion means the discovery of idea and the organization of funds to run the business. This is the first stage for the formation of company. The persons who take initiative in the formation of Join Stock Company are called promoters. There must be minimum seven promoters in case of public company and two promoters in case of private company. Following important steps are involved in this stage:

1. Discovery of idea

First of all promoters discovered the idea about the new business and hope that business will be run in profit.

2. Investigation

Promoters investigate about new business project. They investigate for demand of product, availability of labor, raw material and capital.

3. Verification of result

They verify the result of investigation with the help of independent experts. The verification is necessary to avoid the onward losses.

4. Assembling the different factors

If promoters satisfy with their investigation then they start the assembling various business elements. They secure the license, copyright if necessary and appointment of necessary employees. Promoters make some contract with suppliers of raw material and machinery.

5. Financial resources

Promoters estimate the total amount of capital needed and then they contact with banks and underwriters for collecting the capital by issuing share and debentures.

6. Preparation of essential documents

Promoters also prepare the essential documents such as:

- ✓ Article of association
- ✓ Memorandum of association
- ✓ Prospectus

7. Name of company

Promoters also propose name of company. The name should be different form other existing companies.

(B) Incorporation

Incorporation means to register the company with the registrar. The promoters have to file the following documents with registrar for registration purpose.

8. Memorandum of association

This is the most important document, which is filed with the registrar. It is the contract between the company on one hand and outside world on the other hand. It is the constitution of company defining the powers and limiting the scope of its operation.

9. Articles of association

This document contains the rules and regulations for the purpose of internal management of company.

10. List of directors

List of directors with their names and addresses is also submitted with the registrar.

11. Written consent of directors

Their written consent to do so within seven days of issue of certificate of incorporation.

12. Prospectus

Promoters also have to file a prospectus with the registrar.

13. Nominal capital

Promoters also have to submit a statement of nominal capital with which company has to be registered.

14. Fess

Fees is also paid for the registration of company which is divided into three parts:

- ✓ Fees for submitting the application and documents.
- ✓ Registration fees.
- ✓ Fees for stamping the articles of associating and memorandum of association.

15. Statutory declaration

The Secretary or Chartered Accountant that all the provisions of the company's ordinance with regard to registration have been fulfilled has made a statutory declaration.

16. Certificate of incorporation

After the receipt of document, the registrar examines these and if he is satisfied, then he issues the Certificate of Incorporation.

(C) Collection of Capital

After incorporation the next step is the collection of capital. Company raises its capital by issuing shares and debentures. The other steps involved at this stage are as under: -

17. Contracts

Promoters make the contracts for the purchase of raw material, machinery and property.

18. Secretary

A person must be appointed as secretary. A secretary is an employee of company.

19. Bankers

Names of bankers are also mentioned in prospectus so that shareholders can deposit application money into the account of company.

20. Issue of prospectus

Promoters have to issue the prospectus. A prospectus is an invitation to general public to subscribe to the capital of company.

21. Allotment of shares

When applications are received, the directors will allot the share to the applicants.

(D) Certificate of Commencement of Business

A private company can start business on receipt of certificate of incorporation. But a public company cannot start its business without obtaining the certificate of commencement. For obtaining this certificate the following formalities are to be fulfilled.

22. Shares

Company has allotted the shares to the minimum subscription.

23. Payment by directors

Directors have paid the full amount of shares.

24. Submission of prospectus

A prospectus or statement in lieu of prospectus has been filled with the registrar.

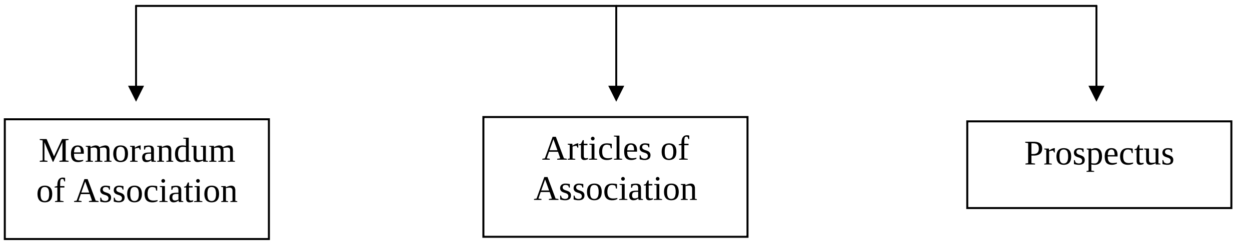
25. Declaration

Chief Executive or one of the directors that all conditions regarding the commencement of business have been fulfilled has made a statutory declaration.

26. Certificate

After the verification of all documents registrar issue the certificate of commencement.

Important Documents of Company



(A) Memorandum of Association

This is the most important document, which is to be filed with the registrar at the time of formation of a company. In fact, it is charter of the company for help and guidance of the outside world. In other words, it is a contract between the company on the one hand and the outside world on the other hand.

This document is regarded as unalterable. It means company cannot change the conditions contained in its memorandum. But it can be amended by passing special resolution and with sanction of court or Central Government. This document is written in form of paragraph.

(B) Articles of Association

This is the 2^{nd} important document of the company. This document contains the rules and regulation for the purpose of internal management. It constitutes a contract between the company on the one hand and its members on the other hand. The articles of association describe the powers of directors and other officer.

The "Articles of Association" must be printed and divided into paragraph. This document must be signed by the shareholders and must be filled with the registrar.

Contents of articles of Association

The main contents of articles of association of any company are as follows: -

1. Share capital and its division in different classes.
2. Price of shares
3. Methods of changing in shares
4. Rights of shareholders
5. Transfer of shares
6. Transfer of share into stock
7. No. of directors
8. Rules for appointment of directors
9. Qualification and powers of directors
10. Methods of calling the meeting of shareholders
11. Declaration of dividend
12. Accounts and audit
13. Appointment of auditor
14. Rights and liabilities of auditors
15. Director's meeting
16. Rules for winding up of company

(C) Prospectus

Prospectus is a document through which a company attracts the public for investment. Prospectus contains all terms and conditions for the purchase of shares and debentures. Each prospectus has a form. Investors for the purchase of shares use this form. An attested copy of prospectus is filed with the registrar.

Difference Between MOA and AOA

The difference between MOA and AOA is as under: -

1. Alteration

a. MOA is regarded unalterable document. Company cannot change the conditions mentioned in it. But it can be amended by special resolution and sanction of court or central govt.
b. AOA is regarded alterable document. Company can change the conditions mentioned in it at any time.

2. Controller or subsidiary

a. MOA is like a controller of company.
b. AOA is the subsidiary of MOA.

3. Conditions of incorporation or final touch

a. It contains the conditions upon which the company is granted incorporation.
b. It gives a final touch to the conditions described in the AOA.

4. Compulsory

a. MOA is compulsory document for formation of company. Company cannot be formed without this document.
b. AOA is optional document for formation of company. A company can adopt table A of the Companies Ordinance 1984.

5. Clauses

a. MOA has usually six clauses.

b. AOA has many clauses. Table A of the Companies Ordinance has 85 clauses.

6. Certificate of commencement

a. It is essential for getting the certificate of commencement.
b. It is not essential for getting the certificate of commencement.

7. Existence of company of agreement

a. In this document all those matters are written for which the company is existed.
b. It is a sort of an agreement between company and its shareholders.

8. Importance

a. It has primary importance in the formation of company. Company cannot be formed without it. So it is called the primary document.
b. It has the secondary importance in the formation of company. Company can be formed without it. So it is called secondary document.

9. Limitations

a. Business limits are mentioned in it.
b. Business limits are not mentioned in it.

10. Nature

a. It is charter of the company, which defines the internal power.
b. It contains the rules for the internal management and defines the powers of governing party.

11. Legal effect

a. Any act of beyond the scope of MOA is illegal.
b. Any act of beyond the scope of AOA is not illegal.

12. Objects

a. Its object is to narrate the conditions upon which the company is granted incorporation.

b. Its object is to narrate the rights and rules, which are mentioned in MOA.

13. Relationship

a. The MOA defines the relationship between company and outsider's such as debenture holders.
b. The AOA defines the relationship between management and shareholders.

14. Registration

a. It is essential for the registration of the company.
b. It is not essential for the registration of the company.

15. Rights and Duties

a. In this document the rights and duties of the company are ascertained.
b. In this document the rights and duties of members and directors are ascertained.

16. Subordinate

a. MOA is under the Companies Ordinance.
b. AOA is under the MOA and Companies Ordinance.

Joint Stock Company

Introduction

Joint Stock Company is a third major form of business organization. Joint Stock Company is formed and controlled under the Companies Ordinance 1984, which came into force on January 1, 1985 in Pakistan. It is managed by group of persons known as Board of Director.

Definitions

1. A company is an incorporated association of persons formed usually for the pursuit of some commercial purpose.

2. A Joint Stock Company is voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.
3. A company is an artificial person created by law with a perpetual succession and a common seal. It has a legal entity, separate form the persons composing it. It can sue and be sued in its own name.

Advantages

1. Attractive of Capital

Joint Stock Companies divided the share capital into shares of small denominations in order to attract capital.

2. Credit Facilities

A Joint Stock Company is in a position to get a loan from bank and other institutions. Financial institutes easily agree to give loan to Joint Stock Companies because its accounts are audited.

3. Economics

Company can reduce much unnecessary expenditures by introducing better methods of production.

4. Easy to Separate

It is easy to separate oneself from Joint Stock Company by selling his shares.

5. Expansion of Business

It is very easy for the Joint Stock Company to expand its business because it collects a large amount of capital with the sales of the shares and debentures on large scale.

6. Employment Opportunities

Joint Stock Company provides the jobs opportunities to millions of peoples.

7. Flexibility

The Board of Directors of Joint Stock Company is in a position to bring the new changes in the business according to circumstances.

8. Growth of Heavy and Risky Industry

Heavy and risky industry may be started only under this organization because the liability of its members is limited and it has large amount of capital.

9. Growth of Economic Activities

A Joint Stock Company produces the goods at large scale and provides the necessities of life at low price. So it is helpful for the growth of economic activities.

10. Higher Profit

Joint Stock Company produce the goods at large scale so average cost of production is decreased and company earns the higher profit.

11. Larger Capital

There is a larger capital in the company because there may thousands number of members. But in private company the maximum limit of number of members is 50.

12. Limited Liability

In Joint Stock Company liability of each shareholder is limited to unpaid value of shares he holds. But in sole proprietorship and partnership private property of owners is also liable to pay the debts of business.

13. Long Period Projects

Due to long life and large amount of capital, the Joint Stock Company can under-take long period projects.

14. Long Life

Joint Stock Company has long life. Because if any partner dies, or become bankrupt or falls sick the company is not affected.

15. Minimum Risk of Loss

There are minimum chances of loss under this organization. In case of company suffers losses, it is shared among all the members. The risk is therefore reduced.

16. Management

The elected experienced and qualified directors administer a Joint Stock Company, so due to this efficiency of the company is improved.

17. Public Confidence

Joint Stock Company is created by law and is supervised by legal authority so this form of business can easily win the public confidence and faith.

18. Skilled Workers

Company can hire the services of skilled workers because of large amount of capital. But it is not possible in sole proprietorship and partnership.

19. Transfer of Shares

The shares of Joint Stock Company may easily be transferred to other persons without the consent of all other members.

Disadvantages

The following disadvantages of Joint Stock Company:

1. Burden of Regulations

There is burden of regulations, frequent reports and taxation.

2. Bogus Reports

Directors who know the internal affairs of the company not provide the correct and full information about the company to the shareholders. So interested parties may not know the actual performance of the company.

3. Corruptions and Fraud

There are more chances of corruption and fraud in Joint Stock Company. Because dishonest promoters show that firm is in loss when there are chances of more profit so that people sale their shares at low prices.

4. Concentration of Control

In Joint Stock compensate shareholders who are the real investors are not allowed to take part in the operations of business. So they cannot know the internal activities of Directors who take undue benefits from their ignorance.

5. Complicated Formation

The process formation of Joint Stock Company is very complicated there are many legal requirements for the formation of this type of organization.

6. Double Taxes

Company has to pay the double taxes to the Government. Firstly management of company pays super taxes on the whole dividend and secondly each shareholder has to pay tax on individual income.

7. End of Freedom

Various Government's authorities interference during the operation of Joint Stock Company. So this organization cannot perform its functions freely.

8. Economic Powers

Due to Joint Stock Companies rich becomes richer and poor becomes poorer. The economic power and control over wealth is gathered in few hands.

9. Lack of Interest

Its ownership belongs to the thousands of persons who do not know each other. Secondly business activities are conducted by paid persons who do not take interest of creating direct relationship with public, so business may suffer loss due to absence of personal interest.

10. Lack of Secrecy

The secrecy is not possible in Joint Stock Company because the management has to make annual reports regarding sale, net profit, assets, liabilities etc of the company.

11. Lack of Responsibility

Directors generally employ their friends and relatives on key jobs. But these persons are incompetent to conduct business affairs. So they cannot perform their duties with responsibility.

12. Labor Dispute

In Joint Stock Company the paid managers of the company do not give proper attention to the problems of labors so laborers trade unions fight against company management.

13. Monopoly

Due to large size and resources a Joint Stock Company is in a position to create monopoly, which is against the public interest.

14. No Spirit

Quality of mutual spirit cannot be found in the company due to transferability of shares and large number of members who do not know each other.

15. Speculation

In Joint Stock Company due to easy transfer of shares and limited liability, speculation in the stock market takes place and the economy of country is adversely affected.

16. Social Drawbacks

There are many social drawbacks of Joint Stock Companies such as human prestige is injured and unhealthy atmosphere within the industry has affected the health of employees.

Sole Proprietorship

Meanings

Sole
The word “sole” means the individual.

Proprietorship
The word “proprietorship” means ownership of business.

Definitions

1. Sole proprietorship means the business in which one person is the owner who solely responsible for all the losses and enjoys all the profit.

2. Sole proprietorship is a business initiated and operated by one individual who carries all financial and administrative responsibilities employing such assistants as may be necessary.

Examples

1. Retailers
2. Accountants
3. Doctors
4. Shop of ready made garment
5. Painter etc.

Advantages

1. Business freedom

Sole trader enjoys the business freedom. He is not bound to take suggestions from others.

2. Credit facilities

Sole proprietorship enjoys the highest credit facilities because private assets are also liable to pay the business obligations.

3. Direct relationship

Sole proprietor has direct relationship with workers. So he can easily understand the problems of the workers and tries his best to solve them.

4. Easy formation

it can be easily established. There are no formalities required to be fulfilled for starting this type of business.

5. Easy transfer

This type of business can be easily transferred to any other person without any restriction.

6. Easy dissolution

Sole proprietorship can be easily dissolved. There are no formalities required to be fulfilled for the dissolution of business.

7. Entire profit

The owner of this type of business enjoys all the profit of business but in partnership and Joint Tock Company profit is distributed among the number of persons.

8. Entire control

The owner has entire control on this type of business. Because he the only person who control solely the business, that is why he can do what he likes.

9. Equal distribution of wealth

This type of business is very helpful for making the equal distribution of wealth.

10. Flexibility

Sole proprietor can easily change his business according to market conditions.

11. Freedom of action

Sole proprietor can take any business action, which in his opinion is best for the business and himself.

12. Goodwill

Sole trader can easily raise the goodwill of business by running the business according to customers' satisfaction.

13. Honesty

Sole trader is solely responsible for all losses so he runs his business with honesty and hardworking.

14. Independence

Sole proprietorship is an independent form of business organization because there is no interference of any other.

15. Low taxes

Sole trader has to pay the low taxes to government, which is levied on his individual income, but the Joint Stock Companies are taxed twice.

16. Low cost of organization

There is low cost of organization for starting this type of business as compared to partnership and Joint Stock Companies.

17. Low cost of advertisement

There is low cost of advertisement in sole proprietorship because he provides the less quantity of goods as compared to partnership and Joint Stock Companies.

18. Less cost of production

In sole proprietorship if owner feels the needs of further capital then he can borrow such capital from their relatives without interest, so due to this cost of production is decreased.

19. Less chances of fraud

There are less chances of fraud in sole proprietorship because no other person involved in business matter except sole trader.

20. Likeness of consumer

Sole trader runs his business on small scale so he keeps in mind the likeness of consumer.

21. Minimum legal restrictions

No legal restrictions are imposed in proprietorship. The government gives preferential treatment to the establishment of small business.

22. Personal interest

In this type of business, the proprietor takes keen interest and tries to know the taste, fashions and habits of customer and he changes his policies according to circumstances.

23. Prompt decision

Sole proprietorship can make the prompt decision in carrying out policies. He can also take quick action for increasing the production activities of workers by giving them incentives.

24. Secrecy

Secrecy is the base of success of business and a sole trader maintains a high standard of secrecy of profit and special techniques of production.

25. Social benefits

Sole proprietorship is very beneficial for society and provides the opportunities of jobs to jobless persons. Sole traders provide daily necessities of life to homes.

26. Self satisfaction

Sole trader feels self-satisfaction because all types of works are done under his supervision.

Disadvantages

1. Chances of fraud

Due to absence of proper accounting and records, there are more chances of frauds in this type of business organization.

2. Difficulties in credit

Banks and other financial institutions hesitate to advance the loan to sole proprietorships.

3. Difficulties to face crises

The sole proprietor has a limited capacity to face heavy losses or economic crises.

4. Entire loss

Sole trader has to bear entire loss of business himself.

5. Limited resources

Sole trader has limited resources, so he can onto raise large capital and due to less capital he cannot produce the goods on large scale.

6. Lack of public confidence

People show the less confidence on this type of business than partnership and Joint Stock Company.

7. Lack of skilled persons

Sole trader cannot hire the services skilled workers due to limited capital. But the Joint Stock Companies enjoy the services of skilled persons.

8. Lack of continuity

If proprietor dies, become bankrupt, fall sick, the business is adversely affected. But in Joint Stock companies it is not possible.

9. Lack of advertisement

Sole trader cannot bear the high expenses of advertisement while advertisement plays very important role for increasing the sale of product.

10. Lack of inspection

As there is no proper records, so there how the inspection is possible.

11. Lack of innovation

Sole proprietor cannot use the new methods of productions due to fear of loss so there is no innovation in such type of business.

12. Less growth

It is not possible for one man to increase his business volume due to:
(i) Unlimited liability
(ii) Lack of capital

13. Less jobs

There are fewer opportunities of jobs for employees in sole proprietorship due to small level of business.

14. Loss in absence

If sole trader remains absent from business due to any reason then business may suffer in loss.

15. Management problem

One man cannot perform all types of management and business activities affectively. He may be expert in purchasing but not in account.

16. Small scale business

Sole trader cannot do his business on large scale due to limited capital.

17. Unlimited liability

The liability of owner is unlimited therefore in case of insolvency of firm the private property of owner may be sold.

18. Un suited for large business

This type of business is unsuited in those industries where:
(i) Large capital is required.
(ii) Higher production is needed.

19. Wrong business decisions

a single trader is not in a position to fully understand all happening in the field, as a result of these he may take wrong business decisions.

20. Weak bargaining position

Sole trader has weak bargaining position when he is as buyer or seller as compared to partnership business.

Chapter 2

Business Management & HR System

- *Organs of company*
- *Letter writing techniques*
- *Reports*
- *Reports writing*
- *Levels of management*
- *Job description*
- *General discipline*
- *Management approach*
- *Management rules*
- *Hiring & firing, interviews*
- *Trainings*
- *Incentive, honorarium, compensation*

Management

Definitions

1. Management means the process of planning, organizing, staffing, directing and controlling.
2. Management is the art of getting things done through people.
3. Management is a distinct process consisting of planning, organizing, activating and controlling performed to determine and accomplish the objectives by the use of human beings and other resources.
4. The art and science of organizing and directing human effort applied to control the forces and utilize the materials of nature for the benefit of man.

Functions of Management

Following are the main functions of management: -

1. Planning

Planning means thinking before doing something. Planning is deciding what work is to be done, where and how the work is to be done and how will do the particular work. Planning is the process of determining goals and then laying out procedure to attain them.

Elements of Planning

a. To determine the short and long term objectives of an enterprise.
b. To formulate the policies for achieving the desirable objectives.
c. To determine the strategy for future action.
d. To make an estimate of future needs.

2. Organizing

Organizing means creation of structure for the work to be performed. Organizing is a process of creating a framework for developing and assigning tasks, obtaining and allocating resources and coordinating work activities to achieve goals.
It involves the following: -

a. To identify the work to be performed.
b. To define and delegate the authority.
c. To co-ordinate the work of individuals and their departments.

3. Staffing

Staffing means to hire the staff. It is concerned with the selection of right man for right job. Success of business depends mainly on its staff. Effective staffing requires: -

a. To assess the manpower requirements.
b. To select and train the staff.
c. To determine the employees remuneration.

4. Directing

Directing includes the issuing orders, training and guidance of the subordinates to achieve desired objectives.

Elements

a. The orders to be issued must be clear and understandable.
b. The manager should provide training and guidance to the subordinates to achieve the desired objectives.
c. The manager should motivate the subordinates to achieve the desired objectives.
d. The manager should see that the work is being performed.

5. Co-Ordination

Coordination creates a team spirit and helps to achieve the desirable objectives through collective efforts. The various devices used for co-ordination are written communication and group meetings.

6. Controlling

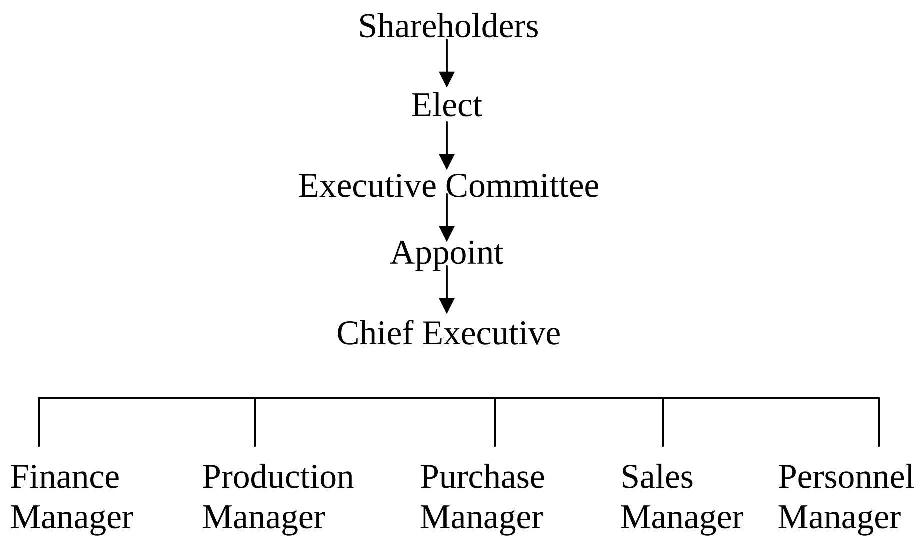
Control is a device to measure performance. Control consists on verifying whether everything occurs according to planning and instructions issued. Its object is to point out weaknesses and errors in order to rectify them.
The controlling process consists of four process: -

a. To establish the standard of good performance.
b. To measure the current actual performance.
c. To compare the current performance with the standard.
d. To take the corrective action if needed.

Organs of Company Management

Company Management

In case of sole tradership, the business is owned by one person and is operated for one's own profit. In partnership, all the partners or a few of them take the responsibility of managing the affairs of the firm. In contrast to both these forms of organizations, the company which is owned by the shareholders is not managed by them. The shareholders in the annual meeting elect the directors who manage the company according to the policy approved by them. The board of directors thus is the top organ of the company. The board of directors usually forms an executive committee. The chief executive of the committee assisted by head of various departments like production manager, sales manager, chief accountant, personal manager, manage the company and implement the decisions of the board. The organs of the company management are:



We now discuss in brief the role played by these organs in the management of the company.

Shareholders

The shareholders are the owners of a public limited company. Due to separation of ownership from control, all the shareholders do not take part in its management. The reasons are:

(1) They are greater in number and lay scattered in various parts of the country.
(2) They have less at stake compared to the promoters.

(3) As most of them possess a few shares individually, therefore they are interested in receiving the dividend and are least concerned with the management of the company.
(4) The majority of the shareholders are ignorant of the operation of the company. They are business shy and do not have the time to attend the general meetings.
(5) As a greater number of them have loose association with the company, they sell the shares in case they receive no dividend or less dividend.
(6) Due to greater number of absentees of the shareholders in the general meetings, the interested shareholders who are mostly the relatives, friends of the promoters, managers use their voting right and elect the directors to carry on the internal management of the company by rotation.

Rights of the Shareholders

In case of company, the shareholders are the owners but the management is entrusted to the elected board of directors. However, there are certain rights, which have been given to the shareholders. These rights are grouped into two broad categories; (1) Individual Rights (2) Group Rights. These are now discussed in brief.

Individual rights of the shareholders

The individual rights of the shareholder are summed up as under: -

1. He is entitled to receive dividend as declared by the company.
2. He can sell his shares at will in stock market.
3. He possesses the voting right in person or by proxy.
4. He can freely take part in the policy making process of the company in the annual meetings.
5. On the death of shareholder, the share will be transferred to the nominee.
6. He can inspect company books and record as per provisions of the articles.
7. On the payment of requisite fee, he can get the copies of memorandum of association and articles of association.
8. He can receive a copy of the minutes of the general meeting on paying the requisite fee.
9. He is authorized to receive the copy of the statutory report not less than 21 days before the statutory meeting.
10. He has the right to share in the assets of the company on dissolution.

Group rights of the shareholders

The shareholders who are the owners of the company have the following group right:

1. They as a group, determine the objectives and policies in the annual general meeting of the company.
2. They have the right to discuss, approve or disapprove the work done by their elected representative in the annual meetings of the company.
3. The shareholders have the right to discuss directors' report, profit and loss account and balance sheet of the company in the meeting.
4. The shareholders elect the directors in the annual general meeting.
5. The accounts are audited by the auditors, who are appointed by the shareholders. They, (shareholders) however, cannot inspect the book of account.
6. The shareholders have the right to inspect and copy the statutory book.
7. The shareholders have the right to declare dividend at the rate recommended by the directors. They, however, have no right to increase the rate of dividend as recommended by the directors.
8. If the shareholders, feel that certain matters are to be discussed urgently and cannot be postponed to the next annual general meeting, they can ask the board to call an extra-ordinary general meeting of the company.
9. The powers of the shareholders can be enlarged by suitable provisions in the articles, but in no case, they can be taken away or reduced.

Directors of a Company

In a company form of organization the ownership is separated from management. The shareholders who are the owners of the company elect directors in the annual general meeting of the company. The elected body called the board of directors is the governing body of the company.

Number of directors (Section 174)

According to the companies ordinance, 1984, a private limited company shall not have less than two directors and a public limited company less than seven directors.

Term of office of director

A director elected under section 178 of the companies ordinance shall hold office for a period of three years unless he resigns earlier, becomes disqualified from being a director or otherwise ceases to hold office.

The directors to act as a board

The directors act as a board. They may meet together for the dispatch of business, adjourn and otherwise regulate the meeting as they deem fit. The board has the power to delegate certain authority to an individual director or to a committee of directors.

Chairman of the board

The directors in the meeting elect chairman who holds office for a period determined by the board. If in a meeting the chairman is not present within 10 minutes after the appointed time of the meeting, the directors can choose any of their members to act as chairman of the meeting.

Proceedings of directors

The quorum for a meeting of directors of a listed public company shall not be less than one third of their number or four whichever is greater. The board of directors shall meet at least twice in a year.

Power of directors

According to section 196 of the companies ordinance, the business of the company shall be managed by the directors. The directors of a company, by passing a resolution, shall exercise the following powers on behalf of the company.

1. To make call on shareholders in respect of money unpaid on their shares.
2. To issue shares
3. To issue debentures
4. To borrow money otherwise than on debentures
5. To invest the funds of the company
6. To make loans
7. To authorize the director of the company to enter into any contract with the company for making sale, purchase, or supply of goods or rendering services with the company.
8. To approve yearly or half yearly or other periodical accounts as are required to be circulated to the members.
9. To approve bonus to employees
10. To incur capital expenditure exceeding Rs. 25 thousand on any single item or to dispose of a fixed asset of the value exceeding Rs. 10 thousand.

Liability of directors

The directors may incur liability in a number of ways. The directors are personally liable for

a. All ultra wire acts such as wrongful acceptance or surrender of shares
b. Payment of dividend and of capital
c. Misapplication of the funds of the company
d. Disposing of any undertaking of the company
e. Remitting any debt due by a director to the company

The directors are personally liable for the breach of trust imposed on them by the company. For instance

a. Misapplication of the funds of the company
b. Receiving advance calls for personal use
c. Getting secret profits
d. For mis-statement or concealment of fact
e. For willful wrong or default or willful misconduct
f. Criminal liability for fraud.

Chief Executive

The board of directors of a company is the top organ of management of a company. However, in actual practice, the board appoints one of its directors as the chief executive. This whole time executive is called chief executive or the managing director of a company. The chief executive has a dual functions. He is a director and a chief executive. As director he shares the responsibilities of the board and as chief executive carries out the management of the company in according with the policies approved by the board. The companies ordinance, 1984 under section 2 (6) has defined chief executive as an individual who subject to the control and the directions of the directors, is entrusted with the whole or substantially the whole, of the powers of the management of the affairs of the company. The chief executive is appointed for a period not exceeding three years.

Functions of the chief executive

Chief executive of a company carries out the general policies, and plans as determined by the directors of the company through team spirit and team work. The chief executive is debarred in engaging himself in any business which is of the same nature as and directly competes with the business carried on by the company of which he is the chief executive.

Managing Agent (Section 206)

The company ordinance, 1984 places a bar on the appointments of managing agents etc. According to the ordinance, no company in Pakistan or outside Pakistan shall appoint any managing agent, by whatever name called, by virtue of an agreement or contract with the company.

Secretary

The secretary is a full time salaried officer of the company. His main job is to carry on the secretarial work. As secretary is associated with most confidential

matters of the company, he should therefore be a person who possesses a strong personal sense of responsibility, high moral character, ethical standard and knowledge of forces that motivate others. The work and duties of secretary vary with the size and nature of operation of the company. However, the typical duties of the secretary are as follows:

(1) Duties before incorporation of the company

When the company is not incorporated, he keeps record of the preliminary meetings of the promoters, help in the preparation of prospectus, memorandum and articles of association, assists in the selection of responsible officers of the company, helps in the appointment of sub-committees, files the documents of the company with the registrar joint stock companies and tries to obtain the certificate of incorporation as early as possible.

(2) Duties after the company is incorporated

I. The secretary prepares a schedule of statutory meetings, makes arrangements for convening them and submits report to the shareholders within the prescribed limit in the ordinance.
II. He calls meetings of the shareholders and the directors as fixed by regulation.
III. He prepares agenda of the various meetings held by the directors, shareholders, branch managers and other department heads.
IV. He keeps an up-to-date record of the proceedings of the meetings.
V. He also reads out the minutes of the previous meetings.
VI. He keeps with himself a ready list of important documents of the company and makes them available on requirement.
VII. He conducts correspondence with the shareholders and provides them information about the related matters as admissible under the rules.
VIII. He attests, signs all the documents, which are to be submitted to the concerned officials of the government.
IX. He is to examine that all the documents are properly stamped and filed in accordance with the companies' ordinance.
X. He is to see that the business of the company is transacted strictly in compliance with the companies' ordinance.

The Parts of a Business Letter

There are many parts of a business letter, which have been divided into two groups: essential parts and non-essential parts.

Essential parts of a business letter

A business letter is generally divided into the following seven parts:

1. The Heading
2. The Date
3. The Inside Address
4. The Salutation
5. The Body of Letter
6. The Complimentary Close
7. The Signature

1. Heading

It indicates when and where the letter was written and thus it comprises the postal address of the writer and the date on which the letter was written. The address may appear either in the center or on the right-hand side of the letter. The date, however, generally appears on the right-hand side. Proper spacing between the name of the firm and its address and between the address and the date has paramount importance.

2. Date

Date gives answer to the question when the letter was written. It is written or typed after two spaces below the last line of the heading. Date line consists of the month, day and year, it should be kept in mind that the name of the month is written in full and no abbreviation or number is used to indicate month.

3. Inside Address

This comprises name and address of a person or the firm to whom the letter is written and appears on the left-hand side of the letter. This corresponds to the address on the envelope with the only difference that in some cases, the number and name of the street is omitted. This, however, is unwise and a complete address is always desirable, as otherwise, it may become difficult to locate a reference with the copy of the letter. Proper spacing and punctuation are necessary here as well. The word Messrs is generally prefixed to a partnership firm or “& Co”.

4. Salutation

This appears below the name and the address of the recipient (to whom the letter is written). The various words used as salutations are: Sir, Dear Sirs, Madam, Gentlemen, Dear Mr. ____, Dear Miss _____, Dear Mrs. ________.

A salutation in business is followed by a comma (,).
Sir: This has become very formal now-a-days and is not generally used except by government office.
Dear Sir: This is by far the most accepted form of salutation. However, this is used only when the relationship between the correspondents already exists.
Dear Sirs: This type of salutation is used in case of letters addressed to companies or partnership firms when the word Messrs is generally used, and where the letter is addressed to a firm and not to the Manager or any other person.
Dear Miss, Dear Mrs., Dear Mr.: These are used only where the writer knows the recipient well and wants to give a personal (friendly) touch rather than being formal as usual.

5. Body of the Letter

It is that portion of the letter which contains the message or the information which the writer wants to communicate. The body of the letter should be divided into different paragraphs. Each subject should be dealt within a separate paragraph.

The first paragraph should introduce the subject matter of the letter and where it is a reply, the reference number and date should be clearly mentioned. In the subsequent paragraphs, different topics may be discussed.

6. The Complimentary Close

This should always agree with salutation and a comma must always follow it. The most common forms of complimentary close are:

1. Yours faithfully,
2. Yours truly,
3. Yours very truly,
4. Yours respectfully,
5. Yours sincerely,
6. Yours obediently,
7. Your obedient servant, (this form is now seldom used.)

Examples of suitable complimentary close to salutations are:

Dear Sir,	Yours faithfully, Or Yours truly,
Dear Madam,	Yours faithfully, Or Yours truly,
Dear Sirs,	Yours faithfully, Or Yours truly,
Sir,	Your obedient servant,
Madam,	Your obedient servant,
Gentlemen,	Your obedient servant,
My dear Sir,	Yours very truly,
My dear Sirs,	Yours very truly,
Dear Madam,	Yours very truly,
Dear Mr.	Yours sincerely,
Dear Miss.	Yours sincerely,
Dear Mrs.	Yours sincerely,

7. Signature

The signature of the writer will follow the complimentary close. As far as possible, the signature should be legible; otherwise the name of the writer should be typed. In some cases, the name of the firm or the company is also mentioned immediately after the complimentary close, but before the signature. Designation of the writer may also be used wherever possible.

The Non Essential Parts of a Letter

Besides the essential parts, a business letter has some non-essential parts including reference line, attention line, subject line, identification line, enclosures, postscript and carbon copies. As the title shows, these parts are not compulsory. It means that the letter will not be defective if any one of these parts is missed. However, the proper use of these parts improves the standard of a business letter.

1. The Reference Line

It shows the reference number of the letter. The importance of the reference line lies in the fact that it links the replies with the previous communication. In this way the letter can be sent to the concerned branch, department or person. The reference line is typed/written on the left hand margin of the paper just opposite to the date line.

2. Attention Line

When a letter is addressed to the company rather than an individual the attention line may be used to expedite the arrival of letter as its proper destination. This line is typed below the inside address and above the salutation. It helps to bring the letter to the notice of a particular person or department.

3. Subject Line

If the writer wants to tell the reader in advance what the letter is about, he may use subject line for this purpose. It should be written two spaces below the salutation starting form the left margin of the paper. Commonly, the subject line is used in long message only. It enables the reader to know about the central idea of the letter.

4. Identification Line

This line is used only in business letters and not in personal correspondence. The short name or the initials of the writer and that of the typist make the identification line. This line begins at the left margin of the paper usually two spaces below the signature, in such a way that the initials of the writer come first on the left side and those of the typist on the right.

5. Enclosure(s)

When something is attached with the letter in the same envelope, an enclosure notation indicates this fact. Enclosure is helpful to both, the writer and the receiver, in confirming that all the documents are present when the letter is received. Writing the word Enclosure always indicates it or the abbreviation "Encl" one or two spaces below the identification line, e.g. Enclosure of Encl: 3 certificates.

6. Carbon Copies

If a copy of the letter is to be sent to one or more persons, the addressee should be informed about this. For this purpose, abbreviation "CC" is written on the original and all the duplicate copies of the letter. This can be written as:

CC to Mr. Nazir

But when the writer wishes to send a copy of the letter to a third person and does not want the addressee to know about it, blind carbon copy (bcc) is written below CC as only on the duplicate copy:

Bcc: Muhammad Imran
Saima Butt

7. Postscript

Sometimes the writer feels it necessary to write something after the completion of the letter, he puts down PS (postscript) and after that writes down whatever he intends to write. As PS is a part of the letter, it must have the initials of the writer in the end. Every effort should however, be made to avoid postscripts as they tend to spoil the beauty of letter.

Business Reports

Purpose and Need of a Business Report

Before the industrial revolution, businesses were very small and generally one man was sufficient to supervise all the requirements of his business. It was after the industrial revolution and the advent of scientific management that industrial and business houses started to realize the importance of business and industrial organization. As times passed by, the commercial activity kept growing, until it became fairly impossible for one man to observe and control all the business activities by himself. That was the time when division of labor took a vital position and with that came the element of specialization. The growth and expansion of business activity reduced the element of direct communication among people and there emerged the need for writing reports. The primary purpose of report is to provide timely and updated information to the decision maker about situations requiring his attention for action. Special reports, on the other hand, are more explanatory and thus involve the element of research.

The growth of business introduced the need for creating different levels in the organizational structure, so that control of activities delegated to different people became easier. The introduction of levels increased the span of control by a manager of his people. The group became larger in size with one person gaining more power. In order to allow flow of communication among different groups the managers used certain media. The managers wanted feedback on how their instructions were being carried out. Thus reports became a popular media for feedback. For example, if you are a manager in an organization and you have been assigned the duty of controlling a large group of people, what you would do is that you would divide that large group into small groups of people with one person in every group appointed as a group leader. You would pass all your instructions to the group leaders who would execute your instructions. That information on group's activity by a group leader would be presented to you either orally or in writing. Both the oral as well as written feedback that reaches you through a group leader as a reaction to your instructions is a report.

Ordinarily you would expect the group leaders to present to you their suggestions or recommendations on personnel, activity, execution time and plans for overcoming the difficulties. While planning your own activities, you would need a substantial support of data, which would reach you through your subordinates or other people in the form of reports. If a new idea is presented to you by someone in the organization to improve the existing work system, it would come to you in writing so that you can evaluate its application in the existing work system.

In another situation where a business grows so such an extent that a manager cannot find time to oversee all the operations in the organization, he would need substantial support of reports. In some other cases where the processes a manager has to handle become so technical that he cannot find adequate solutions to them, reports become so technical that he cannot find adequate solutions to them, reports become more and more widely used. Reports, therefore, are needed by a manager because of paucity of time at his end or owing to substantial changes in technology requiring expert opinions for his guidance.

Reports would also be needed in situations with the following characteristics:

1. When top management is located at a distance from some operation.

2. When management cannot possibly find time to oversee all the operations even in one large building.

3. When some of the processes are so highly technical that no single person is competent enough to fully understand all of them.

4. When numerous records have to be maintained and several people are to be kept informed.

5. When competition pushes a company to use several creative brains power and the company employees are involved in the development of new ideas.

A small business does not require extensive support of records for the reason that most of the transactions executed are in the knowledge of the owner of the business. As soon as a business grows, the organization structure also grows with it. Greater growth of organization structure increases the quantity of communication among corporate personnel. This communication interaction results in increasing records of the company. Records are created for reference by the company personnel. The information on these records demands frequent reporting to different people. Reports, therefore, become greatly used.

The repaid increase in the number of industries has given rise to hard competition among businesses of the same nature. In order to meet the challenges of competition, businesses are frequently required to develop new ideas and innovate new products. This is possible either through a collective effort of the corporate personnel or through hiring the services of outside consultants. Both situations demand preparation and exchange of reports.

In the modern business, however, all managers expect their employees to be able to write reports. The level of performance of a subordinate is determined by the

management on the basis of the quality of his report writing. Every manager, therefore, must know how to present his ideas in a report about his individual performance and also about the performance of others under his supervision.

The important tool for better managerial performance today is a report. Imagine, if you are to make a decision about the marketing strategy of your products, you will have to bank upon which can give you the present market locations, the product range available in markets, the advertising campaigns of your competitors and the market potentials. In the absence of a report, you would plan an inadequate marketing strategy and your finished goods stocks will continue piling up, resulting in reduced margins of profits to your company. All the adverse consequences of your decision would be attributed to lack of reports about the current market positions. In the first instance, in the absence of reports you would probably be reluctant to come up with a marketing strategy for your products, and if you do that, you would repent over your wrong decision. The reports generally contain answers to one of the following three questions:

1. How would the company benefit from the new proposal? As an answer, all reports do not always benefit the company in terms of money. But they do provide benefits in terms of quality/quantity or by saving time, efforts, money or material.

2. What is the proposed new method? Over a period of time, when the employees go no doing things in a certain way that practice becomes a second nature for them. Frequently there is a need to change that routine so as to improve upon the existing way of working. The choice, therefore, is between the existing way of doing things and the proposed new way. Usually the new methods result in saving wastages and improving productivity.

3. Can it work? The new proposals, before their application, are critically evaluated for their consequences and continuity. The evaluation process considers economic and material justification of the new proposal. In addition, the evaluators would consider the possibilities of financing new projects and determine the benefits likely to accrue from their application.

You would observed that a report is always required for any change in the critical aspects of a company’s policy or for updating the critical aspects of a public policy. For example, when some changes are required in a public law or regulation or even in an existing practice, committees or commissions are constituted to make recommendations for a smooth change. Recommendations from a committee or a commission take the form of a report. Similarly, in private sector, if the corporate management of a company wants to install a new plant, it would require

the support of a report about a number of factors, such as how the new plant would benefit the company and in what sense would the new plant be preferable to the plant being currently used?

Reports are extremely necessary in all situations where a change is needed. For example, if our organization faces a problem, which does not find an answer in the routine decisions and actions of the management, a special report on the study of that problem and to make recommendations for its solution would be needed.

Classification of Reports

You have so far read about the need for a report and have learned that the nature of reports varies in different situations. While furnishing your office, the type of furniture and equipment you select must have relevance to the nature of your job. A typist's room furniture and equipment would be different from the furniture and equipment required for a clerk. Similarly, the nature of a report must correspond to the situation and the content and recommendations presented in one report would be different from those of another report.

Sometimes the nature of problem studied in one situation may tally with the nature and problems of another situation. Yet the content and recommendations would be different. This difference in the above stated two factors may be due to difference in the business environment. In this case, although the nature of report would be the same, yet the two factors would have a varied response by the report writer. In spite of these similarities and variations in the functions of a report, we cannot find another word to replace this work "report". In the same way, we cannot find one generic definition of "report". It tends to product meanings according to the situation. The best ways, therefore, to get a clear idea of the word "report" is to consider the usual characteristics of a report along with special characteristics of different reports. Usually but not always a report: -

1. Is a management tool, which helps an executive to make decisions and to take actions in various situations. A report therefore, is functional writing for the benefit of reader. The important person involved in a report is the reader rather than the writer. for example, when a report writer writes the report, he does not write it for his own consumption but for the consumption of the reader. Therefore, a report is a document, which is written for the consumption of others. A report must contain some useful information for the reader, which he ordinarily does not have with him.

   A report is quite different from a theses presented to a professor. The term paper therefore, is an exception to the report. It is a pure research which

aims up the frontiers of knowledge it may not point to its immediate use by the reader.

2. Is a job assigned to someone in the organization. The nature of reports originating within the organization could be special or periodic. For example, in one situation you may notice that the rate of employees' absenteeism has gone up. You may have discovered the problem of high absenteeism, yet you may not have the answer to handle that problem. Under such circumstances what you may do is assign someone in the organization with study of the problem and suggest some remedies for overcoming the same. The job assigned would become a part of an employee's regular duties and special reports are assigned as occasions arise for such an activity.

   It would usually be the responsibility of the assigner to make clear to the writer as to what type of reports the former expects from him. The assigner would clearly state whether the report should be analytical (sometimes called recommendation or improvement report) or the same would lay down facts with interpretations for drawing conclusions or making recommendations or both. In some cases the writer can be asked to sort out facts about a situation and give his conclusions or recommendations.

3. It exchanged among different levels in the organization. Sometimes reports are exchanged between people of equal rank of two or more department heads. These reports can occasionally be sent to people of lower positions in the organization. However, the usual practice is that reports written by executives are sent to people in higher positions, such as, the board of directors, legislators or elected members of parliaments.

4. Is written for selected members or for one reader. In case report is written for one reader, it is much easier for the writer to draft the same in a style and language, which may correspond to the choice of his reader. Usually there is one reader, who may, after his review, send the report to people in higher positions with his comments. Otherwise also, the practice observed in business organizations or government departments is that when a report is received by a higher-up, he passes it over to one of the executives below him for review and comments. Some reports require the attention of more than one person for their comments and observations. Such reports are therefore, sent to selected members of a group. Annual report meant for share-holders in business.

5. Is required to receive attention of more than one person in an organization. Generally, all the written material is organized as reference material for

executives. Because of their special nature, reports may sometimes involve complex facts and ideas requiring attention of more than one executive for their interpretation.

6. Is a balanced combination of use of the techniques and designs for communicating clearly, quickly and easily, commonly understood words, short direct sentences and paragraphs, headings, topics, sequence and brief summaries, itemization, graphic presentation and specific, concrete and humanized writing.

7. Is expected to be accurate, reliable and objective. Special efforts of the writer are required to make the report error free. He should quote facts which could not be challenged and avoid making assumptions and giving opinions. Reports, which do not have the characteristics of accuracy, reliability and objectivity, are generally shelved and produce no result. In fact, the writer of such reports is likely to spoil his image with the readers.

8. Is structured using a special form best suited to the specific function. You would learn about report forms in the subsequent parts of this unit. Yet at this stage you should bear in mind is that the special form of progress report is an exception to the other forms of reports. It relates specifically to a project and is presented periodically. In some cases progress report could become a special assignment given to someone about the study of a certain project. A report may be informational or analytical. Its form, length and degree of formality may be appropriately related to the situation.

   As regards their nature, reports can be classified as follows: -

   1. Information or fact-finding reports
   2. Periodic or special reports
   3. Executive or financial reports
   4. Analytical reports
   5. Recommendation or improvement reports
   6. Progress or inspection reports, etc.

Knowledge of the characteristic requirement of reports is more important then knowing their classification. The information contained in a report should be accurate, reliable and objective. Objective means that in spite of variations in the interpreting the meanings of a report. Further, a report should be presented in functional rather than literary style. The report style should suit individual as well as collective group requirements of readers.

The Art of Report Writing

In order to learn the art of doing sometimes what is important for your as a person is to practice the basic principles of doing that thing. If you want to learn the art of communicating with others first of all you must know the principles of communication. Similarly, if you want to be a good artist, you would first learn the basic principles of the art you are interested to learn. Learning the principles would arm you with the basic knowledge about the art, while the practice on those principles would help you learn that art itself. The art of report writing, therefore, requires you to learn the principles of report writing to begin with. After you have learned those principles, you would still face difficulties in learning the art. Still you have to face a number of challenges. But if you continue to live up to the challenges, you would certainly acquire the art of writing a report.

Again, the quality of your first few reports would be of somewhat low standard. However, persistent practice would definitely result in improved standard. Since report writing is one of the vital criteria for an executive to be successful in his professional career, all of you should devote full attention to learning the principles of report writing.

Principles of Report Writing

When you talk to people on the principles of good report writing, every person would give you different ideas. Rightly so, there are no generic principles for writing a quality report. Yet, over a period of time people have developed some guidelines for writing a report. These principles or guidelines are laid down as follows:

a. Identify the problem.
b. Collect relevant data or facts.
c. Organize facts in a logical framework.
d. Seek evidence for supporting the facts.
e. Interpret facts.
f. Select appropriate report style.

Identify the problem

Regular reports within an organization aim at providing a manager with information relating to the performance level of each activity in his department. These reports enable him to assess the difference between actual performance that is reported and targeted performance. The word “targeted” here refers to the standards that a manager may have set for the achievement of each activity.

Therefore, the comparison between the expectations and actual achievements gives him an understanding of deviations.

A problem is nothing except the knowledge of deviations from the standards. In order to know and identify the problem, a report writer must bear in mind the standards set for each activity and compare them with actual performance. The difference between the two will tell him about the intensity of the problem. Absence of standards in a work situation would cause serious problems not only in work performance but also to the report writer; those tasks in identifying problems will become too difficult.

In some situation standards are stated as objectives. Thus, in such situations, the problem would be identified by spelling out the objectives and comparing them with actual achievements within a specified time. For example, if a company has targeted to achieve 10 objectives in a time span of one year, while in 10 months it has only been able to achieve five of its objectives, we can easily say that the company is lagging far behind in the achievement of its objectives compared to the time span set for the purpose. Whether we use the word standards or objectives, in either situation the report writer's first obligation is to know the problem. It is said that half the solution to a problem lies in its proper identification and if the report writer fails to identify the problem, he won't be able to come up with an adequate solution.

The deviations in performance relate to the changes in internal and external environment of a company. In some cases, for example, a company or a firm may decide to allocate a certain amount of its financial resources to one of its projects, it may happen that performance on that project remains much below the target. An analysis of the project might reveal that either the allocated funds did not flow in time or there was wastage of money due to increase in overhead costs. Both factors contribute to change in actual plan. Every problem results from a certain cause. Taking the above example, the company might have launched the project hoping that it would receive an in-time financial assistance from its parent company or some commercial bank might have promised a loan to finance the project, which however, could not materialize, if the required financial flow had been available to the project and yet it could not achieve its desired objectives, then the reason could have been lack of organization or some lapse in planning. In the final analysis, every problem has a cause, which has to be determined to find out its solution. In the absence of a clearly defined cause, the final solution to a problem will be hypothetical, not real.

Now, how would it be possible for a report writer to know and identify the problem. By now you know that a problem is identified through a comparison between standards and actual achievements. What you would get from this

comparison is the deviation between the tow. This deviation will broadly identify the nature of problem for you. For example, if you observe in a process industry that the units produced suffered in quality a few minutes ago, what have obviously noticed is that the quality of units produced prior to that observation was satisfactory, while the units produced later were deficient. Therefore, at that stage you would state the problem as “low quality production”.

Having identified the problem, your next curiosity would be to find out the cause of the problem. The determination of cause would require you to post certain questions. You would therefore, raise several questions on the flow of process. For example, the questions you may generally ask would be:

- When was the first defective unit observed?
- Where was that unit observed?
- Who were the persons operating on that process?
- Were they reasonably qualified and experienced to handle the process?
- On which machines were the defective units observed?
- Was there any change in the raw material used for manufacture of those units? etc

The use of the stated questions would give you some idea of the process, the people involved, the timing of the occurrence of defect, the machines under operation, the training and experience of the person operating on those processes and the place where that low quality was observed etc. On the basis of that information, you will be able to specify the problem together with its possible dimensions. The attempt to specify the problem would narrow down the broad spectrum of the problem for you and would lead you to understand its likely cause. The likely cause can be discussed with the people concerned with the problem to get some clue to the real cause. The verification of that clue with the situation would provide you the answer to the problem. During the entire stated process the major instrument for identifying the problem and finding out its clues would be the “questions”.

Another important activity for you after the stated process would be to take a look at what you already know about the problem. Based on your existing knowledge of the problem you may formulate hypothesis. But never let yourself jump to final solution until you have made sure that all the required facts about the problems have been collected and sorted out. Most problems find easy and quick solution with the reporter despite inadequate supporting facts. Such snap answers to problems are likely to add to their complexity. You should, therefore, avoid the tendency of reaching a quick solution to a problem in the absence of adequate facts. Remember, the initial solutions to a problem are just assumptions.

Before concerting these assumptions into recommendations. Check all the questions you had listed to find out the problem. The see which of those questions have been answered to your entire satisfaction and where there are gaps. Clearly indicate the gaps in information that are to be filled in by data still to be collected and note down what you think are the best possible answers and methods for acquiring the missing data. Apply those methods in the situation and keep on with your efforts for collecting data, until you feel that all information gaps have been bridged with the required data.

Finally, each report has to be finalized within a certain time. The initial survey of the problem would help you to sort out various steps required for the completion of the report. Every step will have to be timed. In other words, before making a commitment for writing a report, the writer must prepare a schedule of time for its completion. Giving adequate time margins for certain exigencies and then adding the time required for each step would help him to calculate the total time needed. Time schedule also assists the report writer to keep all his time priorities within the boundaries of that schedule. Briefly, the steps required in identifying the problem are:

1. Know our current problem clearly.
2. Review the conditions that would influence the report.
3. Decide about its main topics, main elements and main divisions.
4. Prepare specific questions relating to various aspects of step 3.
5. Assess your existing knowledge about the problem.
6. Prepare a time schedule.

Collect Relevant Data or Facts

In step 1 we have emphasized the need for knowing the problem. Once the problem has been identified, it must be listed in terms of its elements and each element should be divided into topics and subjects. Data collection should be arranged according to the elements listed in the problem area. Generally the following three methods are used for collecting data:

I. Reading materials
II. Questionnaire and interviews
III. Observations

I. Reading materials

This relates to the study of published material like:-

Books
Journals/magazines/articles

Thesis
Appraisal reports
Financial reports
Brochures
Speeches
Project feasibility reports
Budget proposals etc

As regards reading materials, some material is easily accessible to the report write while the other has to be searched. The material that is easily accessible includes books, articles, thesis, brochures, company literature, speeches and sometimes even financial reports. On the other hand, the material that required to be searched by the report writer includes feasibility studies, annual appraisal reports and budget proposals etc. The nature of reading materials, depends largely on the nature of report a person is assigned to write. The routine reports generally require the reading material that is easily available to the report writer in the company records. On the other hand, for the special reports to be written either by the company employees or by outside consultants, requisite reference material is not that easily accessible. Reference to such material, which is not easily accessible calls for special efforts on the part of the report writer. Books that are needed as a general reference include:

Encyclopedia
Census reports
Year books
Atlas
Directories
Statistical source books etc

The stated books are just a few of the numerous reference books that are usually placed conveniently on a table or in open shelves in a library, while standard text books are placed in the library books shelves and their reference is available in the index card catalogue arranged alphabetically by author, subject or title. Whether it is a handy shelf material or a regular library book, the report writer must know the art of locating reference material and making good use of a library.

II. Questionnaire and Interview

The reference to the relevant reading material builds-up in the report writer the capacity to handle a problem. But because of the diversity of problems faced by different organizations, each problem has to be thoroughly studied. At the surface various problems look quite similar to one another. Deep down they may have resulted from a variety of different reasons having no relevance to the problems

that you may have studied in the past. Therefore, every problem needs an individual study to find out its particular reasons.

The study of individual problems requires the use of questionnaire and interview techniques. The report writer, after the initial study of the problem, sets forth the objectives that he wants to achieve through its solution. Accurate fact-finding about the situation requires not only the knowledge of the problem but also a clear statement of objectives. Questions are, therefore, arranged in accordance with the objectives that a report writer wants to achieve.

Each question in the questionnaire must relate to the problem being studied. As for the art of structuring a questionnaire, you already know the basic principles. Once a questionnaire has been prepared, you must make it a point to review the same with your colleagues or such other people who are experienced in the art of designing questionnaires. The exercise enables you to get certain inputs from them to be incorporated in your questionnaire. The edited and revised questionnaire is used in order to obtain data relevant to the problem. A popular technique for obtaining data is that a questionnaire is combined with interviews. In this way the report writer establishes a direct support with those who have been approached to respond to the questions in the questionnaire. During the process he can explain the meanings of certain words or phrases which the respondent may find difficult to understand. Besides, the technique is helpful in making sure that all questionnaires are received back by the report writer with appropriate responses from the respondents.

In order to obtain a reasonably reliable data on the problem, the report writer will have to make a careful selection of the people to whom he may address his questionnaire. He can do that initially by studying the organizational chart and the positions of various persons working for that organization. Based on that study he can prepare a list of those to be interviewed. Later, he can review this list with the concerned authority, which will not only help the interviewer to make right selection of the people for his interviews but also enable him to secure the approval of the concerned authority to meet them. Sometimes the concerned authority, besides granting approval for interviews, also helps in arranging interviews with the concerned people and instructs them to cooperate fully with the interviewer in providing him with accurate data.

Data collection is the most vital activity in report writing. Your recommendations for the solution of a problem are based on the quality of data you may have collected about the situation. If the data collected by you is reliable and accurate, you are likely to provide acceptable solutions to the concerned management about the problem. If otherwise, you may have to cut an extremely sorry figure with them. Unreliable data is likely to lead to only unrelated solutions and

recommendations. In such as case not only your image as a report write is damaged with the management but you may also be labeled as an incompetent executive.

The combined questionnaire and interview techniques assist the report writer in acquiring accurate data. During the review of the questionnaire with the respondents he can explain the nature of each question and emphasize on the quality of data he wants through the use of those questions. After a respondent has given his answers to the questions, the interviewer can quickly go through those responses and in case of any ambiguity in any response, he can seek clarification from the respondent. In case of some serious ambiguities in the responses, the interviewer can frame related additional questions and ask the respondent's view on them. This process would not only clarify the doubts in the mind of the interviewer but also provide him an opportunity to acquire additional data on those questions.

The use of questionnaire being rather too formal as a tool for obtaining data, the current practices emphasize on using interviews. The interview techniques require pre-structured questions with the interviewer. The interviewer, before holding interview, ensures complete privacy to his interviewee, so that the latter does not hide the essential information from him. Instead of giving a questionnaire, the interviewer quite informally asks questions from the interviewee and seeks details from him on all aspects of the problem. The main advantage of such a technique is that the respondent usually feels that his responses are not being formally recorded as is done in the case of questionnaire. Holding a successful interview is an art, which can be learnt through experience. The interviewer keeps the tone of his questions soft but searching, so that he may acquire all the essential data about the problem. Direct questions are sometimes quite embarrassing and are therefore, generally avoided. A successful interview, besides the use of questions, requires full support of the concerned management.

III. Observations

It is the third vital method of collecting data. Observation, besides its usual meaning of visiting places and seeing things, includes investigations of company records on finance, production, sales, personnel and industrial engineering etc. For example, if you want to know the level of motivation of the employees of a company, you cannot know it while sitting in the office of an executive. You will have to move around, chat with people and observe their actual behavior on work.

You observation of the work behavior of your subordinates can sometimes by faulty. For example, if you are the boss of a department and you make an inspection visit of different workshops under you the behavior of people during your visit to those workshop may be quite different from their usual behavior. On

seeing you they may start shuffling papers or moving machines rather smartly, whereon you may from the opinion that your employees are keenly involved in their work. But that may be an absolutely false view.

Under such circumstances a careful study of the company record can help the executive to make a relatively correct appraisal of the situation. The company record includes reference to both the individual performance of every employee as well as their collective performance. So, the physical observation of employees' behavior compiled with the study of the company record about personnel would give you a picture of the employees' behavior. Matters like the inspection of provision of physical facilities are purely a subject of physical observation. You cannot tell about the condition of toilets unless you have visited the places physically.

There are certain aspects that you can study in the company records, while there are certain other matters, which require physical observation. The observations do not usually involve a specific collection of data about a particular problem. The observer goes through company records or makes actual physical observations with an open mind. During the search for information he may observe things which may otherwise be quite valuable to him, although having no immediate relationship with the problem. Observations, therefore, have the main advantage of convenience. You can see thing happening in a few minutes while otherwise you may have to read a long description about them and yet not clearly conceptualize how that happens. For example, you may read a good deal of literature about a word processor and yet you may not have a clear idea as to what it is, while it you see the word processor and observe its operation, you get a whole some idea about the machines.

Organize Facts in a Logical Framework

After the fact finding mission has been accomplished, the report writer then compiles data into information. Organizing facts requires putting the data in its relevant box. In some cases the data may emerge as a table, a graph or a bar chart. Ordinarily, facts are pooled together in a logical sequence under the heading to which they belong. For example, if the data collected is on several aspects of a company, one of which is finance, all the data relating to finance will be pooled together under the stated heading and compiled for use in the report.

Finally, all data compiled under different headings is brought together for presentation in a report form. Every report at its start summarizes the problem identified by the report writer. The text of the report should, therefore, have relevance to the sequence established during the summary of problems and so is the case with recommendations. Since a variety of reports have been highlighted

by us in this unit, the report format and its content would depend on its nature and style. However, the table of contents serves as a basic guideline for the report user to make reference to the facts utilize in the report. Logically, the facts in a report should be laid down in accordance with the table of content. The other important consideration types regard to facts is the priority that the report assigns to various types of the data collected. The facts having top priority appear first in the report, while other facts are arranged in the sequence of their priority. Organizing facts in a logical sequence plays a vital role in the presentation and an acceptance of a report. Following principles are generally helpful in organizing facts.

I. Classify all your information or facts in accordance with the little and purpose of your report.
II. Establish clear relationship among different parts of the report and arrange them in such a manner that they all add to the whole.
III. Use no inside sub-division. Keep to the main division of parts.
IV. Try and establish more or less equal division among parts to maintain an approximate balance.
V. Use an acceptable grammatical structure during presentation of a report.
VI. Breakdown each part into the sequence more appropriate to the purpose of your report.

Seek Evidence for Supporting the Facts

Plain facts do not always appeal to the user of a report, we the human beings tend to have a rather brighter view of our actions and deeds and thus the need for improvement in them is usually over sighted, which preparing reports we should take a subjective view of things. Again, a report writer is required to provide solid evidence in support of his views. For example, in one of your reports on improving efficiency you may have highlighted the need for improved labor management relations. When your report reaches the management, they might ask you to produce some positive evidence regarding existing poor labor management practices in case you have not already quoted such evidence in the report.

It is therefore, necessary for the report writer to search and quote evidence in support of the facts dealing with some aspects of the company. The reports, where a clear evidence supporting the facts is not provided by the report writer, are considered sub-standard by the management.

Interpret Facts

All facts embodied in a report do not always require interpretation. But if the report writer wants to give his analysis, he will have to study the facts thoroughly and translate his interpretation into conclusions or recommendations. Care should

be exercised by the report writer to be objective in his analysis and to avoid subjective opinions have no relationship with the facts. The following errors lead to misrepresentation of facts: -

1. Using unreliable source materials (books and people).
2. Drawing conclusions or making generalization on the basis of too little evidence.
3. Using unfamiliar or wrong phrases to explain something (usually called analogies).
4. Providing confusing relationship between cause and effect.
5. Making assumptions without solid evidence.
6. Using numerous adjectives and adverbs to give the report an emotional appeal.
7. Failing to clarify the difference facts, opinions and assumptions.

Select Appropriate Report Style

The selection of appropriate style depends upon the nature of the report. Reports, as you already know, are presented verbally or in writing. Obviously, verbal reporting does not require a written style for its presentation. Yet, what it does require is a logical arrangement of thoughts with a reasonable presentation. The person presenting an oral report should, however, prepare brief notes of facts or observations.

A written report, on the other hand, is impersonal and thus requires a careful selection of its style and format. You have read about the two main types of written reports namely, the operational reports and the non-operational reports. The use of either of the two formats depends upon the purpose for which they are written. In the presentation of any of the two types of reports, the writer must take into consideration the following points:

1. A report must have a purpose to achieve
2. It must include statements or data that would help the reader to achieve a clear understanding of the subject.
3. It must follow a logical order.
4. It must use simple words and short sentences.
5. The findings of a report must be adequate and clear.
6. It must contain a brief summary of problems and conclusions.
7. It should contain specific recommendations.

In addition to the above points, the report style should be:
1. Impersonal
2. Calm – not exiting

3. Moderate

The format of a report generally includes the following points:

1. Introduction
2. Body of the report
3. Process and ideas
4. Conclusions and recommendations

Every report writer presents in his own style and format. However a popularly accepted format of a report includes the following points for the sequence of its layout: -

1. Introductory notes
2. Objectives
3. Executive summary
4. Conclusions or recommendations
5. Text or body
6. Appendix, annexure etc

Report writers generally are specific standard format, because it is popularly accepted by the users of reports. It has been observe that the person who uses a report wants to know its purpose. Sometimes he is also interested in knowing the methods used for collecting facts, which have been quoted in the report. In order to answer those questions of the user, a report also includes an introductory note in the beginning. Besides, a clear statement of the objectives of the report is also given in the second part of the report.

In addition, it has observed that the executives, who need reports for their decision making, have very little time to read them all. Therefore, a report writer also includes and executive's summary, conclusions and recommendations are given to help the decision maker to visualize what the report writer wants the user to conceptualize. The text and appendix are given as fifth and sixth part respectively. The reason why the main text of the report if placed at fifth stage is that in case the reader is interested in knowing some details about a specific recommendations, he can do that by going through the text. Reading of text, therefore, is a matter of choice with the user and the report writer wants to avoid creating any embarrassment by placing the text in the beginning of the report.

Reports Writing

In olden days, reports were not needed. Every man was his own complete business firm, or the overseer of a small group of people under his command. As on the spot manager of his affairs, a man saw all the facts he needed for making decisions about how to operate his business. In the 21st century business world, it is unlikely that any organization of size could function without using reports. The larger and more dispersed an organization becomes the more dependent it becomes on documents.

Definition of Business Reports

Definitions in current use range from one extreme to the other. By the broadest definition, reports are almost any presentation of information ranging from the extremely formal to the highly informal. Narrower definitions limit reports to more formalized presentations of information. For the student of business reports, a definition approaching the narrower ones is best. Such a definition is the following.

"A business report is an orderly and objective communication of factual information which serves some business purpose".

The British Association for Commercial and Industrial Education has defined a report as:

"A document in which a given problem is examined for the purpose of conveying information and findings, putting forward ideas and sometimes making recommendations".

Why reports are written

Reports serve as the basis for decision and action. So many factors have to be taken into consideration now a days before a decision is made that it is necessary to have the relevant information in written form. Reports serve as evidence of work that has been done. They are valuable as a repository of information, possibly of great capital value to a company.

Reports are not written to enhance the prestige of a company, they do nevertheless sere this purpose. Reports serve the not altogether unworthy aim of providing a challenge to the individual to be explicit and articulate. This is the crucial test of a person's knowledge, whether he can make it intelligible to others.

The Kinds of Reports

Routine Reports

Written reports fall into two classes. They may be either routine reports or special reports. Many of the reports made in business are routine and deal with matters that periodically recur.

Examples of this type are the routine weekly and monthly reports made by sales people, the periodic summaries of progress in any large-scale operation, and the chairman’s annual report at shareholder’s meetings are all reports of a largely routine kind and conform to a pattern established by precedent. Presentation of this kind creates no special problem.

Special Reports

Special reports are different. They deal with special situations of every conceivable kind. They range from reports that are no more than replies to requests for information to those which involve prolonged investigation undertaken for the purpose of helping to shape business policy. They may be in summary forma and consist of a single sheet, or they may extend over many pages. They may be produced by an individual, or as a result or an investigation carried out by a group or committee, in which case the actual preparation and writing of the report falls upon the secretary.

The Formal (Long) and Informal (Short) Reports

The special business reports can be classified into two categories: the short report and the long report.
The short report, also called the informal report, is frequently submitted in the form of a letter addressed to the person or persons at whose request, or an shoes instructions, the report is made. The mechanical structure will not differ from that of the ordinary business letter and the report should be signed and dated as such. It is always helpful too, if a subject heading is included above the body of the letter.

Subject matter will usually be arranged in the following order:

a. **Terms of Reference**
   In the opening paragraph a brief mention of the request for the report and its scope, followed by a formal statement that the report is being submitted.

b. **Procedure**
A statement of the methods of investigation used. The sources consulted, the enquiries made, and any other methods used to ascertain the facts.

c. **Findings**
An orderly arrangement of the facts ascertained.

d. **Conclusions**
A statement of the conclusions drawn from the facts.

e. **Recommendations**
A statement of the recommendations, if these have been asked for, will conclude the report. The letterform of presentation is suitable for short but not for lengthy report.

The Long Reports (Formal Reports)

The long reports, also called the formal reports, concern presentation of relatively large problems. As a rule, such topics have some need for formal presentation. The typical long report is well supplemented with prefatory parts. Its contents are carefully organized and marked with captions. It may even require such supplementary parts as appendix, bibliography, or index.

The most frequent, most obvious, and probably most successful arrangement is the following:

	Cover Title Page
Preliminaries	Letter of Authorization
	Letter of Transmittal
	Table of Contents
	Synopsis
Body	Body Text
	Conclusion
	Recommendations
	Appendices
Supplements	Bibliography
	Index

Major Differences in Short and Long Reports

Even though much is common between the two, certain differences do exist. Following are some of the differences, which stand out as most significant. In short reports there is:

a. Less need for introductory material.
b. Predominance of direct (psychological and deductive) order.
c. More personal writing style.
d. Less need for coherence aids.

Essential Qualities of a Good Business Report

A well-written report should have the following qualities.

Accuracy

It must be accurate. The facts should be gathered carefully and interpreted honestly. Facts and opinions should not be intermingled. No executive wants to base decisions on a report writer's assumptions, or his preconceptions.

Clarity

It must be clear. The report will be clear only if it is presented as an orderly procession of facts and ideas. Clarity can result from the use of commonly understood words, short, direct sentences and paragraphs, itemization, graphic presentation, and specific, concrete writing. The use of vague or muddled phrases should be avoided the most important aspects of style is that the report should be so written that it is easily understood by the reader for whom it is intended.

Conciseness

It must be concise. It should not be too long, for a manager is much more interested in the recommendation than in all the ramifications of argument leading up to them it should be to the point, and never longer than it need be. The essential point is not the length of the report, but economy in the use of words.

Readability

It must be readable. It is not enough for presentation to be clear. It must be attractive in a form and in terms that capture attention. No report is of any use, unless it is attractive enough to at least gain a reading. To use bright and colorful language adds interest to what you have to say and makes your report more readable. Technical language should not be used, if it can be avoided.

Tone

The tone for a report is more formal than that for the business letter. It is, therefore, customary to write in the impersonal third person, except when the report is the account of an eyewitness or is made in letterform.

Examples

Assuming that you have been requested by your Managing Director to look into the working of your company's office in order to recognize it draft your report suggesting steps to be taken for its reorganization.

May 9, 2004
The Managing Director,
Amjad Shoe Industries,
949-GT Road,
Gujrat.

Subject: **REORGANIZATION OF THE COMPANY'S OFFICE**

Dear Sir,
This report is in response to your letter no. 945 dated April 9, 2004, asking me to look into the working of our office for the purpose of reorganizing it. I visited the place and talked to various people. My findings are given below:

Our offices are situated at a very noisy place. Actually the place is the nerve center of the business activity. The roads are almost always, even late at night, full with thick traffic. The result is that the office staff finds it difficult to concentrate on their work.

The staff is unequally distributed among various branches of our offices. There are, for instance, thirteen Accounts Assistants working in our Accounts Branch at present, while the Audit Branch has only two. This is also the case with other branches.

Our new Business Manager is a very brilliant young man with new, productive ideas. But he does not seem to have much practical experience of his new job. His branch is, therefore, not as quick in the disposal of business as it should be.

The salary and wages section is also placed in the main office; previously it used to be at the factory site. The long distance between the two has created difficulties for the workers who now get their wages on day late.

In view of these findings, I suggest that:

1. The company office should be immediately shifted from its present site to a place, which is quiet and where the traffic noise does not hinder the office work. A place like Township would be quite suitable for the offices.
2. At least 3 Accounts Assistant may by immediately transfer to the Audit Branch where the trained men are badly needed. The Business Branch is also overstaffed. Some men (at least two) may be transferred to the Sales Branch.
3. Our new Business Branch may be transferred to our Faisalabad Branch where he will have ample opportunities to make himself conversant with fieldwork and thus get good experience. After five months he may be posted back to the Company's Head Office.
4. The salary and wages section may be transferred to its old office at the factory site. This will help all factory workers and others in getting their wages and salaries exactly on time.

Yours truly

SAIMA BUTT
General Manager

Report of the Sub-Committee

Appointed by the Managing Director on May 10, 2004, to enquire into the affairs of the National Engineering Company. The committee, in accordance with the instructions received from the Managing Director, enquired into the affairs of the company and compiled it report.

The committee found that the Works Manager, who holds a very important position in our workshops, has grown too old to continue doing useful work. Moreover, the Office Manager is rather a careless person and he is not strict enough to maintain discipline in his office. The result is that the work is not performed according to the instructions of the Board of Directors. The customers, therefore, do not repeat their orders.

The Assistant Managers in the Work Branch do not perform their duties assiduously. The workers, therefore, have also stopped talking their duties very seriously. They do not produce the goods to the high standards and exact specifications laid down by the company.

The Accountant has not tried to keep his knowledge up-to-date nor has he tried to use the best system of costing our goods to the requirement and satisfaction of the company.

Recommendations

1. The committee recommends that the Works Manager be retired immediately. The Office Manager be demoted to a junior position, and a competent but strict man be appointed in his place.
2. All Assistant Manager of works be fired. Others appointed in their place should be selected for diligence and their devotion to duty.
3. The Accountant be sent to undergo a training course in Cost Accountancy at the ICMA.
4. A staff meeting be called immediately for the purpose of announcing in clear terms that disobedience to the orders of an officer will bring immediate punishment. Repeated disobedience, or incompetence will mean immediate dismissal.
5. An outstanding performance in any branch of the workshop should entitle a worker to an extra bonus.

Signed on behalf of the

SAIMA BUTT
Secretary

Report on Opening a Canteen on the Premises of the factory

May 11, 2004

The Managing Director,
Green Chemical Company,
99-Green Town,
Faisalabad.

Subject: **OPENING A CANTEEN ON THE PREMISES OF THE FACTORY**

Dear Sir,
In accordance with the instructions contained in your letter of April 30, 2004. I have investigated into the matter and now submit my following report:

During the last two years, the number of our employees in our factory has considerably increased. The factory workers and other employees have their lunch

break at 2:00 A.M. They naturally want tea, biscuits and other eatables to refresh themselves. But the facility of a canteen does not exist on the premises.

They rush out to different teashops and hostels, situated at a distance of half a mile from the factory. They have to face inconvenience, as conveyance is not easily available. They usually return late after the recess interval. For this they are taken to task by the shift incharge, Mr. Amjad, who is a very strict man. Moreover, food supplied in these hotels is not of a good quality. The workers often complain of stomach trouble afterwards.

I make the following suggestions:

1. Arrangements for starting a cafeteria, within the factory premises, may please be made as soon as possible. For this purpose two rooms will have to be constructed near the gate of the factory.
2. The employees should be provided tea, milk, biscuits etc, on no profit, no loss basis.
3. The factory management should run the cafeteria. Two full time cooks and four waiters should be employed.
4. The Manager of the company should be instructed to check the quality of food.

If some points need clarification, I may please be called up for personal interview to discuss the matter in detail.

Yours truly,

Amjad Ali
Secretary

Reports on Opening a Cafeteria Within the College Premises

May 25, 2004

The Principal,
Govt. Model Degree College,
Lahore.

Dear Sir,
In accordance with your instructions contained in your letter of May 1, 2004, I have inquired into the causes, which created unrest among the students.

My findings are given below:

I met the class representatives of Part-1 and Part-2 and also the President and the General Secretary of the College Students Union. I found that the major demand of the students is opening of a cafeteria within the premises of the College.

It is a fact that the students experience great hardship in procuring tea, biscuits, cakes etc. There is no place they can have a chat along with tea. For this purpose they have to go to a nearby restaurant, where they have to pay much. As students they cannot afford to spend so much. Moreover, the things they are offered at that place are poor in taste quality. Besides, men of all shades of character visit the restaurant and thus vitiate the atmosphere of the place with their rubbish talk. In view of the facts stated above, I offer the following:

Suggestions:

1. A cafeteria should be opened within the college premises without loss of time.
2. So far as funds are concerned, the industrialists of the town should be approached.
3. All things sold here should be on no profit basis.
4. The class representatives should have a share in the management.

If any further discussion be necessary, I may please be sent up at any time convenient to you.

Yours truly,
Amjad Ali

Report on Introducing a New Product in the Market

May 29, 2004

The Sales Director,
Akram and Company Limited,
34-Lyton Road,
Lahore.

Subject: **INTRODUCING A NEW HAIR COLOR**

Dear Sir,
In accordance with your instructions vide your letter no. 256 dated May 9, 2004, I have now completed my report, I met people of both sexes and of different age groups, but all above thirty-two.

I held discussion with all people I met. These discussions covered al aspects of this product. Almost everyone appreciated the idea of a perfumed hair color. The hair colors available in the market do not have a fragrant smell. All the people, I

interviewed, gave a definite preference for a hair color with a light perfume. I also found that the people liked to have hair dyes of different colors, each color to have different shades.

I also noted that the people wanted a hair color, which did not require a pre-washing of hair. Also the people wanted that the hair color should not contain any compound that might affect the growth of hair adversely, that is to retard or thin the growth. Many people also complained that the hair colors usually stained clothes and, therefore, they wanted new hair color easily washable. In view of these findings, I suggest that:

a. To begin with, we may have only these two shades, black and brown.
b. The hair color should contain a shampoo compound to act as a pre-dye a washing.
c. The new hair color should be made available at all provision stores and hair dressing saloons.
d. A strong publicity campaign should be mounted, especially through the television, to popularize the new perfumed hair color.
e. The hair color should be priced low.
f. Replacements should be sent promptly, if the complaints are genuine.

If there are any points which need clarification, I may please be called at any time convenient to you.

Yours truly,

REHMAN
Sales Manager

May 30, 2004

Report of an Accident

The Managing Director,
ILMI PUBLICATIONS LIMITED,
Gujrat.

Dear Sir,
With a deep sense of sorrow I report to you that a serious accident took place at the company's press at about 11:am today.

The foundation of the outer walls of the press collapsed all of a sudden and the roof and ceiling were also partially affected. An unfortunate employee named Rizwan, a compositor, working in the press at that time lost his life, and two other employees were slightly injured. The injured, however, after receiving first medical aid, were able to proceed to their homes.

The relative of the deceased employee (Rizwan) have been contacted, and formal notification has been made to the factory inspector and also to the insurance company.

I shall let you know the date of judicial inquiry as soon as I receive intimation thereof, so as to enable you to arrange for the company's representation.

Yours faithfully,

M. Amjad
Secretary

Report to Directors Regarding Irregularities in the Office Staff, Particularly Deficiencies in Petty Cash and Suggesting Safeguards for the Future.

May 22, 2004

The Directors,
The Packages Limited,
Kashmir.

Dear Sirs,
In accordance with your instructions to the undersigned. I have conducted a thorough enquiry into the causes and the extent of the irregularities noticed in the office staff during recent months and particularly deficiencies in petty cash reported by the internal auditor as well as the general cashier. I would now like to report as follows:

In the course of my enquiry, the most serious irregularity that came to my notice was with regard to staff attendance. Due to the lack of stringent check on the time of arrival and departure of the office staff, late arrival and early departure has become a sort of habit with majority of junior staff. The result has been a general deterioration in the efficiency, standard and a considerable accumulation of arrear work, particularly in the filing and billing department.

As regards deficiencies in petty cash, it was reported to met hat on three occasions, when the general cashier or the auditor conducted surprise check, the petty cash balance was found short and the petty cashier could not satisfactorily explain the deficiency. The system of petty cash followed in our office tends to encourage malpractices on the part of the petty cashier. The general cashier advances sundry amounts to petty cashier whenever the latter makes a requisition without proper

verification of the actual petty cash balance. In view of these findings, I recommend that:

1. The departmental officers should be instructed to keep the attendance registers in their rooms and the members of the staff should be asked to sign the registers in their presence at the time of both arrival and departure.
2. Suitable alteration should be made in the office rules whereby late arrivals or departures for more than three days in a month may be penalized by the deduction of a day's privilege leave.
3. A system of weekly progress report on the volume of work done, to be submitted by each individual member of staff, may also be introduced which will keep in effective check on the accumulation of arrear work.
4. The system of advance just on demand should be done away with.

Yours faithfully,

SECRETARY

Report on a Fire Accident

May 28, 2004

The General Manager,
Kashmir Textile Mills,
44-Kashmir Road,
Kashmir.

Subject: **REPORT ON A FIRE ACCIDENT IN OUR LOCAL BRANCH**

Dear Sir,
The report is in response to your directive no. 3454 dated May 25, 2004, in which I was required to send you a detailed account of the fire in our local branch in Masjid Gali. On April 25, 2004, our watchman heard the cries of "Fire". It was 11:am to his horror he found that a neighboring office belonging to another textile mills was in flames. The fire brigade, which was immediately summoned, was unable to extinguish the fire till 1: pm.

The watchman with the help of some passers by, tried his best to control the fire which had spread to our office. Unfortunately, he could not succeed in his efforts. He, however, did not lose his wits. Promptly, he removed all valuable papers and files to the office of our customer, Mr. Amjad, in a building nearby. Despite this, the damage has been considerable. All furniture has been gutted. The wooden

staircase, three tables, two typewriters and all wooden almirahs have been reduced to cinders.

Our office, as your know, was housed in an old building in Masjid Gali. This building was made mainly of wood and was in bad shape. We had requested the landlord many times to carry out necessary repairs, but to no effect. Now that it has been burnt by fire, I suggest that we hire new premises in a new locality. We should house our office in a strong concrete and cement building, centrally located and easy of approach.

Yours truly,
SALES MANAGER

Report on Certain Grievances of a Firm's Office Staff

May 9, 2004

The Managing Director,
Amjad, Ali and Company,
Lahore

Subject: **REPORT ON THE GRIEVANCES OF OUR OFFICE STAFF**

Dear Sir,
This report is submitted in compliance with your letter no. 3234 dated May 4, 2004, in which I was asked to report to you on the grievances of our office staff at the Lahore Township Branch. I visited the branch offices several times and made a thorough inquiry. My report is as under:

The branch offices at Township open at 8:am. The staff finds it difficult to reach there in time. Township is seven to eight kilometers away from the city. It is not easy to get a bus early in the morning for Township. The members of the staff are, therefore often late. The office supervisor, Mr. Amjad, is a very strict man. He never spares them and takes them to task for being late. Mr. Amjad cannot be blamed for it. But this has created a sense of frustration among the office staff.

The office breaks for lunch only for 30 minutes. There are no lunching facilities in or near the office. The nearest hotel is situated at a distance of about half a mile. Again, they are taken to task by the office supervisor for returning late from lunch. The office supervisor, Mr. Amjad, does not believe in dealing with his colleagues courteously. He delights in using harsh words.

The office staff does not enjoy medical facilities. Last year Siddique, the office peon met an accident, while he was on duty. But the company did not offer him

any medical assistance. Siddique does not seem to have forgotten this shabby treatment up to this day.

Recommendations

In view of these findings, I make the following suggestions:

1. The office time may be changed from 8:00 am to 8:30. This will make things easier for them.
2. I strongly recommend that our company should open a cafeteria of its own within the premises of the company's office. The office staff should be sold tea, milk, and eatables like biscuits, cakes, rusks etc, on no profit basis. This step will go a long way in removing one of their hardships.
3. Mr. Amjad may please be sent up by the Managing Director and told to be courteous with his colleagues.
4. The factory workers and the officers have been enjoying regular medical aid. But the office people are not given any medical facilities. It is sheer justice to them. This facility may be extended to the office staff too, and if a man is injured while on duty, he must be looked after well.

I may please be sent up if the Managing Director desires to have further discussion with me on some points mentioned above.

Yours truly,

Majid Ali
Sales Manager

Report on Decline in Business

May 25, 2004

The Managing Director,
Amjad, Ali and Company,
Lahore.

Subject: **REPORT ON DECLINE IN BUSINESS**

Dear Sir,
In accordance with your instruction, I inquired fully into the causes of the falling of the demand for our soaps during the last one-year and have compiled my report which is as under:

Till the month of June 2004, the sales of our soaps had been quite satisfactory. In June new brands of soaps appeared in the market. These soaps are cheaper and attractively packed. Naturally, these new brands have caught the public eye and are gradually replacing our soaps.

The company introducing new brands of soaps has mounted a strong publicity campaign. Prize coupons have also been attached to the cakes of soaps. This lure of winning some big prize is also acting one the minds of the general public. In view of these findings, I recommend that:

1. The quality of our soaps must be better than that of the other soaps currently in the market. New brands of attractive, fragrant soaps must be produced. Moreover, they should be priced at a relatively low, competitive level.
2. Immediate steps should be taken to organize a special advertising and publicity campaign. This is an age of publicity. The sooner we do it, the better it would be. Any slackness on our part will leave the market free to our rivals. I suggest that we should acquire the services of a competent commercial artist to help us in publicizing our goods effectively.

In closing, I may state that if any further clarification of some point is required, I may please be called at any time convenient to you.

Yours truly,
Muhammad Ali

Committee's Report on Financial Position of the Company

Dear Sirs,
Committee on review of financial position.
Appointed by the Director, the committee has looked into the financial position of the company and has following report to submit:

Facts of the case

1 The company is over-staffed and the distribution of work among the staff is irrational.
2 The company has been taking 20 typewriters, 2 duplicating machines and 20 ceiling fans on hire, which involves a recurring expenditure of a very high order.
3 There is little follow-up program to realize the outstanding debts of the company with the result that the circulation of money is hampered.

4 The trade discount offered by the company is 5% higher than that offered by the competitors.
5 The entertainment bills are inflated.
6 The company is housed in a very large building at a very high rent.

The committee has, therefore, following recommendations to make:

1. Economy cut may be exercised in the staff by 20% and the workload may be more rationally distributed among the members of staff.
2. The equipment on hire may be purchased to reduce the high recurring expenditure bill.
3. Vigorous drive may be launched to pursue old debts.
4. The trade discount offered may be made at par with the competitors.
5. Austerity may be ensured for one or two years.
6. The company may rent a cheaper accommodation.
7. Checks and counter checks may be adopted to tone up general efficiency.

Secretary

Defining Management

The process of getting activities completed efficiently and effectively with and through other people. The term management refers to the process of getting activities completed efficiently and effectively with and through other people. The process represents the functions or primary activities engaged in by managers. These functions are typically labeled planning organizing, leading, and controlling. We elaborate on these functions in the next section.

Efficiency is vital part of management. It refers to the relationship between inputs and outputs. If you can get more output from the given inputs, you have increased efficiency. Similarly, if you can get the same output from less input, you also have increased efficiency. Since managers deal with input resources that are scarce mainly people, money and equipment, therefore is concerned with the efficient use of these resources. Management, therefore is concerned with minimizing resource costs. Efficiency is often referred to as “doing thing right”.

However, it’s not enough simply to be efficient. Management is also concerned with getting activities completed; that is, it seeks effectiveness. When managers achieve their organization’s goals, we say they are effective. Effectiveness can be described as “doing the right thing”. So efficiency is concerned with means and effectiveness with ends.

Efficiency and effectiveness are interrelated. For instance, it is easier to be effective if one ignores efficiency. Timex could produce more accurate and attractive watches if it disregarded labor and material input costs. Some federal government agencies have been criticized regularly on the grounds that they are reasonably effective but extremely inefficient; that is, they get their jobs done but at a very high cost. Management is concerned, then, not only with getting activities completed (effectiveness), but also with doing so as efficiently as possible.

Can organization, be efficient and yet not effective? Yes, by doing the wrong things well! Many colleges have become highly efficient in processing students. By using computer-assisted learning, large lecture classes, and heavy reliance on part-time faculty, administrators have significantly cut the cost of educating each student. Yet students, alumni, and accrediting agencies have criticized some of these colleges for failing to educate their students properly. Of course, high efficiency is associated more typically with high effectiveness. And poor management is most often due to both inefficiency and ineffectiveness or to effectiveness achieved through inefficiency.

Management Functions

In the early part of this century, a French industrialist by the name of Henri Fayol wrote that all managers perform five management functions: they plan, organize, command, coordinate, and control. In the mid 1950s, two professors at UCLA used the functions of planning, organizing, staffing, directing, and controlling as the framework for a textbook on management that for twenty years was the most widely sold text on the subject. The most popular textbooks (and his one is no exception) still continue to be organized around management functions, although these have been condensed generally to the basic four: planning, organizing, leading, and controlling. Let's briefly define what each of these functions encompasses.

Planning: Includes defining goals, and developing strategy, and developing plans to coordinate activities.

Organizing: Determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be taken.

Leading: Includes motivating subordinates, directing others, selecting the most effective communication channels, and resolving conflicts.

Controlling: Monitoring activities to ensure that they are being accomplished as planned and correcting any significant deviations.

If you don't have any particular destination in mind, any road will get you there eventually. Since organizations exist to achieve some purpose, someone must define that purpose and the means for its achievement. Management is that someone. The planning function involves defining an organization's goals, establishing an overall strategy for achieving these goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities.

Managers are responsible for designing an organization's structure. We call this function organizing. It includes determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and at what level decisions are made.

Every organization includes people, and management's job is to direct and coordinate these people. This is the function of leading. When managers motivate subordinates, direct the activities of others, select the most effective communication channel, or resolve conflicts among members, they are engaging in leading.

The final function managers perform is controlling. After the goals are set (planning function), the plans formulated (planning function), the structural arrangements delineated (organizing function), and the people hired, trained, and motivated (leading function), something may still go wrong. To ensure that things are going as they should, management must monitor the organization's performance. Actual performance must be compared with the previously set goals. If there are any significant deviations, it's management's job to get the organization back on track. This process of monitoring, comparing, and correcting is what we mean by the controlling function.

The continued popularity of the functional approach is a tribute to its clarity and simplicity. But does it accurately describe what managers actually do? Following the functional approach, it is easy to answer the question "what do managers do?" They plan, organize, lead, and control. But it this really true of all managers? Fayol's original functions were not derived from a careful survey of thousand of managers in hundreds of organizations. Rather, they merely represented observations based on his experience in the French mining industry.

Management Roles

In the late 1960s, Henry Mintzberg did a careful study of five chief executives at work. What he discovered challenged several long held notions about the manager's job. For instance, in contrast to the predominant views at the time that managers were reflective thinkers who carefully and systematically processed information before making decisions, Mintzberg found that his managers engaged in a large number of varied, un-patterned, and short duration activities. There was little time for reflective thinking because the managers encountered constant interruptions. Half of these managers' activities lasted less than nine minutes each. But in addition to these insights. Mintzberg provided a categorization scheme for defining what managers do based on actual managers on the job.

Mintzberg concluded that managers perform ten different but highly interrelated roles. The term management roles refers to specific categories of managerial behavior. These ten roles can be grouped as those primarily concerned with interpersonal relationship, the transfer of information, and decision making.

Interpersonal Roles

Roles that include figurehead, leader, and liaison activities. All managers are required to perform duties that are ceremonial and symbolic in nature interpersonal roles. When the president of a college hands out diplomas at commencement or a factory supervisor gives a group of high school students a tour of the plant, he or she is acting in a figurehead role. All managers have a role

as a leader. This role includes hiring, training, motivating, and disciplining employees. The third role within the interpersonal grouping is the liaison role. Mintzberg described this activity as contacting external sources who provide the manager with information. These sources are individuals or groups outside the manager's unit, and may be inside or outside the organization. The sales manager who obtains information from the human resources manager in his or her same company has an internal liaison relationship. When that sales manager confers with other sales executives through a marketing trade association, he or she has an outside liaison relationship.

Informational Roles

Roles that include monitoring, disseminating, and spokesperson activities. All managers, to some degree, fulfill informational roles receiving and collecting information from organizations and institutions outside their own. Typically, they do so by reading magazines and talking with others to learn of changes in the public's tastes, what competitors may be planning and like. Mintzberg called this the monitor role. Managers also act as a conduit to transmit information to organizational members. This is the disseminator role. When they represent the organization to outsiders, manages also perform a spokesperson role.

Decisional Roles

Roles that include those of entrepreneur, disturbance handler, resource allocator, and negotiator. Finally, Mintzberg identified four decisional roles, which revolve around the making of choices. As entrepreneurs, managers initiate and oversee new projects that will improve their organization's performance. As disturbance handlers, managers take corrective action in response to previously unforeseen problems. As resource allocators, managers are responsible for allocating human, physical, and monetary resources. Last, managers perform as negotiators when they discuss and bargain with other groups to gain advantages for their own units.

MINTZBERG MANAGERIAL ROLES

ROLE	DESCRIPTION	IDENTIFIABLE ACTIVITIES
Interpersonal		
Figurehead	Symbolic head; obliged to perform a number of routine duties of a legal or social nature.	Greeting visitors; signing legal documents.
Leader	Responsible for the motivation and activation of subordinates; responsible for staffing, training and associated duties.	Performing virtually all activities that involve subordinates.

Liaison	Maintains self-developed and activation of subordinates; responsible for staffing, training, and associated duties.	Acknowledging mail; doing external board work; performing other activities that involve outsiders.
Informational		
Monitor	Seeks and receives wide variety of special information (much of it current) to develop through understanding of organization and environment; emerges as nerve center of internal and external information about the organization.	Reading periodicals and reports; maintaining personal contacts.
Disseminator	Transmits information received from outsiders or from other subordinates to members of the organization some information is factual; some involves interpretation and integration of diverse value positions of organizational influencers.	Holding informational meetings; making phone calls to relay information.
Spokesperson	Transmits information to outsiders on organization's plans, policies, actions, results, etc; serves as expert on organization's industry.	Holding board meetings; giving information to the media.
Decisional		
Entrepreneur	Searches organization and its environment for opportunities and initiates "improvement project" to bring about change; supervises design of certain projects as well.	Organizing strategy and review sessions to develop new programs.
Disturbance handler	Responsible for corrective action when organization faces important, unexpected disturbances.	Organizing strategy and review sessions that involve disturbances and crises.
Resource allocator	Responsible for the allocation of organizational resources of all kinds in effect, the making	Scheduling; requesting authorization; performing any activity that involves budgeting

	of approval of all significant organizational decisions.	and the programming of subordinates' work.
Negotiator	Responsible for representing the organization at major negotiations.	Participating in union contract negotiations.

Is the Manager's job universal?

We have previously mentioned the universal application of management. Until this point, we have discussed management as if it were generic; that is, a manager is a manager regardless of where he or she manages. If management is truly a generic discipline, then what a manager does should be essentially the same regardless of whether he or she is a top-level executive or low-level supervisor; in a business firm or a nonprofit arts organization; in a large corporation or small business; or located in Paris, France, or Texas. Let's take a closer look at the generic issue.

Organizational Level: We have already said that the importance of managerial roles varies depending on the manager's level in the organization. But the fact that a supervisor in a research laboratory at 3M Company doesn't do exactly the same things that the president of 3M does should not be interpreted to mean that their jobs are inherently different. The differences are of degree and emphasis, but not of function.

In functional terms, as managers' move up the organization, they do more planning and less direct supervising. All managers, regardless of level, make decisions. They plan, organize, lead, and control. But the amount of time they give to each function is not necessarily constant. In addition, the content of the managerial functions changes with the manager's level. For example, top managers concerned with designing the overall organization, while lower-level managers focus on designing the jobs of individuals and work groups.

Job Description

A job description is a written statement of what a jobholder does, how it's done, and why it's done. It typically describes job content, environment and conditions of employment. It focuses on the job. In contrast, a job specification focuses on the person, it states the minimum acceptable qualifications that a jobholder must possess to perform a given job successfully. The job specification identified the knowledge, skills, and abilities needed to do the job effectively.

The job description and job specification are important documents when managers begin recruiting and selecting. The job description can be used to describe the job

to potential candidates. The job specification keeps the manager's attention on the list of qualifications necessary for a person to be able to perform this job and assists in determining whether or not candidates are qualified.

How is information gathered in a job analysis? There are several methods for analyzing a job. There's the observation method in which employees are either watched directly or filmed on the job. Employees can also be interviewed individually or in a group. A third method is the use of structured questionnaires on which employees check or rate the items they perform in their jobs from a long list of possible task duties. Another method is the use of a technical conference, at which "experts" usually supervisors with extensive knowledge of a job identify its specific characteristics. A final method is to have employees record their daily activities in a diary or notebook, which can then be reviewed and structure into job activities.

Future Assessment

Future human resource needs are determined by the organization's objectives and strategies. Demand for human resources (employees) is a result of demand for the organization's products or services. On the basis of its estimate of total revenue, management can attempt to establish the number and mix of human resources needed to reach these revenues. In some cases, the situation may be reversed. This might be the case, for example, in a tax consulting firm that finds it has more business opportunities than it can handle. It only limiting factor in building revenues might be its ability to find and hire staff with the needed qualifications to satisfy the consulting firm's clients. In most cases, however, the overall organizational goals and the resulting revenue forecast provide the major input for determining the organization's human resource demand requirements.

Recruitment and Decruitment

Once manager know their current personnel status (whether they're understaffed or overstaffed), they can begin to do something about it. If one or more vacancies exist, they can use the information gathered through job analysis to guide them in recruitment that is, the process of locating, identifying, and attracting capable applicants". If human resource planning indicates a surplus or employees, management may want to reduce the labor supply within the organization. This activity is called Decruitment.

Where can manager recruit potential job candidates? The table below offers some guidance. The source that is used should reflect the local labor market, the type or level of position, and the size of the organization.

MAJOR SOURCES OF POTENTIAL JOB CANDIDATES

SOURCE	ADVANTAGES	DISADVANTAGES
Internal search	Low cost; builds employee morale; candidates are familiar with organization	Limited supply; ma not increase proportion of employees from protected groups.
Advertisements	Wide distribution; can be targeted to specific groups	Generates many unqualified candidates
Employee referrals	Knowledge about the organization provided by current employee; can generate strong candidates because a good referral reflects on the recommender	May not increase the diversity and mix of employees
Public employment agencies	Free or nominal cost	Candidates tend to be unskilled or minimally trained
Private employment agencies	Wide contracts; careful screening; short-term guarantees often given	High cost
School placement	Large, centralized body of candidates	Limited to entry-level positions
Temporary help services	Fills temporary needs	Expensive, may have limited understanding of organization's overall goals and activities

No matter the type of position or its attractiveness, it's generally easier to recruit in large labor markets than in small ones, if for no other reason than large labor markets such as New York or Los Angeles have a greater supply of workers. Of course, this generalization needs to be moderated by unemployment levels, wage rates needed skills, and other factors. But, in large markets, current employees can direct recruitment efforts locally to newspapers, employment agencies, colleges, or referrals.

The type of level of a position influences recruitment methods the greater the skill required in the job or the higher the position in the organization's hierarchy, the more the recruitment process will expand to become a regional or national search. The scope of recruitment and the amount of effort devoted to it will also be influenced by the size of the organization. Generally, the larger the organization, the easier it is to recruit job applicants. Larger organizations have a larger pool of

internal candidates to choose from to fill positions above the lowest level. Larger organizations also have more visibility and typically, more prestige. In addition, larger organizations may be perceived as offering greater opportunities for job promotions and increased responsibility.

Are certain recruiting sources better than others? More specifically, do certain recruiting sources produce superior candidates? The answer is yes. The majority of studies find that current employee referrals prove to be superior. The explanation for this finding is intuitively logical. First, these employees prescreen applicants referred by current employees. Because the recommenders know both the job and the person being recommended, they tend to refer applicants who are better qualified for the position. Also, because current employees often feel that their reputation in the organization is at stake with a referral, they tend to refer others only when they are reasonably confident that the referral won't make them look bad.

The other approach to controlling labor supply is the process of Decruitment. In the past decade, most large U.S corporations, many government agencies, and even small businesses, have been forces to engage in some Decruitment activities. These cutbacks can be traced to market changes, foreign competition, mergers, and the overall decline in many manufacturing industries. Decruitment is not a pleasant task for any manager to perform. However, since many organizations are forced to shrink the size of their workforce or restructure their skill composition, Decruitment is becoming an increasingly important part of human resource management.

DECRUITMENT OPTIONS

OPTION	DESCRIPTION
Firing	Permanent involuntary termination
Layoffs	Temporary involuntary termination; may last only a few days or extend to years
Attrition	Not filling openings created by voluntary resignations or normal retirements
Transfers	Moving employees either laterally or downward; usually does not reduce costs but can reduce intra-organizational supply demand imbalances
Reduced workweeks	Having employees work fewer hours per week, share jobs, or perform their jobs on a part-time basis
Early retirements	Providing incentives to older and more senior employees for retiring before their normal retirement date

What are a manager's Decruitment options? Obviously, people can't be fired indiscriminately. But other choices may be more beneficial to the organization and the employee. The table shown above summarizes the major options.

Selection

The processes of screening job applicants to ensure that the most appropriate candidates are hired. A new college graduate with a degree in accounting walked into the human resources office to a medium-sized corporation not long ago in search of a job. Immediately, she was face-to-face with two doors, one of which displayed the sign "Applicants with College Degree" and the other, "Applicants without College Degree". She opened the first door. As soon as did so, she found two more doors. The first said, "Applicants with Grade Point Average of 3.0 or Greater", and the other, "Applicants with Grade Point Average of Less Than 3.0". Since she had a 3.6 average, she again chose the first door and was once again facing two doors. One read, "Applicants with Management Majors", and the other, "Applicants with Non-management Majors". Having an accounting degree, she opened the second of these doors and found herself out in the street.

Although this story is fictitious, it does convey the essence of the selection process. When human resource planning identifies a personnel shortage and develops a pool of applicants, managers need some method for screening the applicants to ensure that the most appropriate candidate is hired. That screening method is the selection process.

What is Selection?

Selection is an exercise in prediction. It seeks to predict which applicants will be successful if hired. "Successful" in this case means performing well on the criteria the organization uses to evaluate employees. In filling a sales position, for example, the selection process should be predict which applicants would be likely to generate a high volume of sales; for a position as a high school teacher, it should predict which applicants will be effective educators.

Interviews

The interview, along with the application form, is an almost universal selection device. Not many of us have ever gotten a job without one or more interviews. The irony of this is the value of the interview as a selection device has been the subject of considerable debate.

Interviews can be valid and reliable selection tools, but too often they're not. When interviews are structured and well organized, and when interviewers are held to common questioning, interviews are effective predictors. But most interviews don't meet those conditions. The typical interview in which applicants are asked a varying set of essentially random questions in an informal setting usually provide little in the way of valuable information.

All kinds of potential biases can creep into interviews if they're not well structured and standardized. To illustrate, a review of the research on interviews leads us to the following conclusions.

1. Prior knowledge about the applicant will bias the interviewer's evaluation.
2. The interviewer tends to hold a stereotype of what represents a "good" applicant.
3. The interviewer tends to favor applicants who share his or her own attitudes.
4. The order in which applicants are interviewed will influence evaluations.
5. The order in which information is elicited during the interview will influence evaluations.
6. Negative information is given unduly high weight.
7. The interviewer often makes a decision concerning the applicant's suitability within the first four or five minutes of the interview.
8. The interviewer forgets much of the interview's content within minutes after its conclusion.
9. The interview is most valid in determining an applicant's intelligence, level of motivation and interpersonal skill.
10. A "cold" interviewer (i.e. one who's extremely formal and serious) can have a devastating effect on the verbal and nonverbal behaviors of applicants with how self-esteem.

What can managers do to make interviews more valid and reliable? The list below lists some specific suggestions.

SUGGESTIONS FOR INTERVIEWING

1. Structure a fixed set of questions for all applicants.
2. Have detailed information about the job that applicants are interviewing for.
3. Minimize any prior knowledge of applicants' background, experience, interests, test scores, or other characteristics.
4. Ask behavioral questions that require to give detailed accounts of actual job behaviors.
5. Use a standardized evaluation form.

6. Take notes during the interview.
7. Avoid short interviews that encourage premature decision-making.

Employee Training

On the whole, planes don't cause airline accidents people do. Most collisions, crashes, and other mishaps about 74 percent to be exact result form errors made by the pilot or air traffic controller or inadequate maintenance. Whether and structural failures cause only 15 percent of accidents. We point out these statistics to show the importance of employee training in the airline industry. These maintenance and human errors could be significantly reduced, if not prevented, by better employee training.

A job demands change, employee skills have to be altered and updated. It has been estimated, for instance that U.S business firms spend an astounding $51 billion on formal courses and training programs to build workers skills. Management, of course, is responsible for deciding when subordinates are in need of training and what form that training should take.

Skill Categories

We can group employee skills into three categories: technical, interpersonal and problem solving. Most employee-training activities seek to modify one or more of these skills.

What do you think is the most important thing a manager does?
The most important thing a manager does is to know the strengths and weaknesses of his or her human resources and how to work differently with each personality. By knowing the strengths and weaknesses, the manager knows when to provide support, guidance, call in "extra" help, leave alone, and in general, which coaching style to use with each individual. Different coaching styles produce different results from different people. To get maximum results from someone, I may have to challenge him or her differently.

What obstacles have you faced as a manager?
Having enough well trained staff of the quality needed at the peak time of our business is a regular obstacle faced in my organization. We do 22 percent of our annual business in seven days, just prior to the April 15 tax deadline. We must have staff and equipment to handle the flow of business, serve the client, take care of employees, and make a profit. Of course, obstacles are almost always opportunities that simply may require extra thought processes or action. When faced with an obstacle, look for solutions, not problems. One of my favorite

personal statements is "Don't tell me why it can't be done, tell me how to get it done". It's often easier to say that something can't be done than it is to determine how it can be done.

What skills do you think a successful manager needs?
A manager must be able to communicate effectively, evaluate personnel and situations, and know when to push and when to watch. He or she must possess good "people" skills, skills that allow understanding of what causes certain reactions; counseling skills to redirect, retrain, or replace when appropriate. Also, effective listening skills help the manager determine both sides of the story before looking for solutions. The successful manager provides an environment that allows key staff members to freely communicate their ideas and concerns about the subject, the job, and the organization. He or she also has the ability to mold the process to reach a common goal and meet expectations.

Technical

Most training is directed at upgrading and improving an employee's technical skills. This includes basic skills the ability to read, write, and perform math computations as well as job specific competencies.

The majority of jobs today have become more complex than they were a decade ago. Computerized factories and offices, digitally controlled machines, and other types of sophisticated technology require that employees have math, reading, and computer skills. How, for example, can employees master statistical process control or the careful measurement and self-inspection needed for tool changes in flexible manufacturing systems if they can't make basic math calculations or read detailed operating manuals? Or how can most clerical personnel do their jobs effectively without the ability to understand word processing programs and electronics mail system? At a Boise, Idaho, facility of Hewlett Packard, for instance, the Vocational Training Institute sends professor in to teach production workers about basic electronic.

Interpersonal

Almost every employee belongs to a work unit. To some degree, work performance depends on the employee's ability to interact effectively with his or her co-workers and boss. Some employees have excellent interpersonal skills. Others require training to improve theirs. This includes learning how to be a better listener, how to communicate ideas more clearly, and how to reduce conflict. For instance, at Big Y Foods Inc, of Springfield, Massachusetts, employees learn to

develop cooperation, teamwork, and trust through an experience based learning program that takes place at the company's "Big Y Training Camp".

Problem Solving

Many employees find that they have to solve problems on their job. This is particularly true in jobs that are of the non-routine variety. When the problem solving skills of employees are deficient, management might want to improve these skills through training. This would include participating in activities to sharpen logic, reasoning, and skills at defining problems; assessing caution; developing alternatives and creativity building; analyzing alternatives; and selecting solutions. For example, the New York based fabric supplier F. Schumacher uses teachers from a local community college to train its managers in problem solving and conflict resolution.

Training Methods

Most training takes place on the job since this approach is simple to implement and is usually less expensive. However, on the job training can disrupt the workplace and result in an increase in errors while learning takes place. Also, some skill training is too complex to learn on the job. In such cases, take place outside the work setting.

On-the-job Training

Popular on-the-job training methods include job rotation and understudy assignments. Job rotation involves lateral transfers that enable employees to work at different jobs. Employees get to learn a wide variety of jobs while gaining increased insight into the interdependency between jobs and a wider perspective on organizational activities. New employees frequently learn their jobs by studying under a seasoned veteran. In the trades, this is called an apprenticeship. In white-collar jobs, it is called a coaching, or mentor relationship. In each, the understudy works under the observation of an experienced worker, who acts as a model whom the understudy attempts to emulate. Both job rotation and understudy assignments apply to the learning of technical skills. Interpersonal and problem solving skills are acquired more effectively by training that takes place off the job.

Off-the-job Training

There are a number of off-the-job training methods that managers may want to use. The more popular are classroom lectures, films, and simulation exercises. Classroom lectures are well suited for conveying specific information. They can

be used effectively for developing technical and problem solving skills. Films and videos can also be used to explicitly demonstrate technical skills that aren't easily presented by other methods. Interpersonal and problem solving skills may be best learned through simulation exercises such as case analysis, experiential exercises, role playing, and group interaction sessions. However, complex computer models, such as those used by airlines in pilot training, are another kind of simulation exercise, which is this case is used to teach technical skills.

Incentive (gain-sharing)

A group incentive program that shares the gains of the efforts of group members with those group members. Performance criteria need to be modified to incorporate teamwork behaviors in employee evaluations. Not only should individual performance be evaluated, but factors that indicate how well the individual works in the team context should also be considered. For instance, at Bull HN Information Systems, the North American division of France's Groupe Bull, one important performance evaluation criterion is how well individuals work in teams, get things done through people, and build teams.

But changes in the appraisal process to incorporate team efforts are only half the story. We also need to look at how teams are rewarded for their efforts and performance levels. As organizations use teams more frequently, we are beginning to see an increased use of group incentive plans. One of the most popular approaches to group incentives is gain-sharing, an incentive program that shares the gains of the efforts of employees with those employees. In gain-sharing, rewards are directly related to performance. If the team succeeds, team members will be rewarded. Team based organizations also use rewards such as one-time bonuses, team incentive systems, employee based recognition programs, and informal team recognition. At the head office of Aid Association for Lutherans (AAL) insurance company, for instance, team members get pay increments as they acquire and use new skills. But at Dial Corporation, which uses regional teams consisting of a marketing person, a financial specialist, a customer service representative, and the salesperson, individuals are rewarded based on individual performance as measured by results against goals and on team results as measure by sales volume, sales forecasting accuracy, and improved profitability. Whatever approach is used, however, the team itself should be the primary force in deciding what types of rewards and recognition are important.

Pay for Performance

Compensation plans that pay employees on the basis of some performance measure. Why do most people work? Although there may be many reasons why people work most of us work because it pays us an amount of money that allows

us to satisfy our needs and wants. Because pay is an important variable in motivation as one type of reward, we need to look at how we can use pay to motivate high levels of employee performance. And this explains the intent and logic behind pay for performance programs.

Pay for performance programs are compensation plans that pay employees on the basis of some performance measure. Piece rate pay plans, wage incentive plans, profit sharing, and lump sum bonuses are examples. What differentiates these forms of pay from more traditional compensation plans is that instead of paying a person for time on the job, pay is adjusted to reflect some performance measure. These performance measures might include such things as individual productivity, team or work group productivity, departmental productivity, or the overall organization's profit performance.

Performance based compensation is probably most compatible with expectancy theory. Specifically, individuals should perceive a strong relationship between their performance and the rewards they receive it motivation is to be maximized. If rewards are allocated only on non-performance factors such as seniority, job title, or across the board pay raises then employees are likely to reduce their efforts.

Needless to say, pay for performance programs are gaining in popularity. One survey of 2,000 companies found that 68 percent of the respondents were practicing some form of pay for performance for salaried employees. The growing popularity can be explained in terms of both motivation and cost control. From a motivation perspective, making some or all of a worker's pay conditional on some performance measure focuses his or her attention and effort toward that measure, then reinforces the continuation of the effort with a reward. If the employee, team, or organization's performance declines, so does the reward. Thus there's an incentive to keep efforts and motivation strong. Also, performance based bonuses and other incentive rewards avoid the fixed expense of permanent salary increases and so save money.

Individualize Rewards

Because employees have different needs what acts as a reinforcer for one may not for another. Managers should use their knowledge of employee differences to individualize the rewards over which they have control. Some of the more obvious rewards that managers allocate include pay, promotions, autonomy, and the opportunity to participate in goal setting and decision-making.

Link Rewards to Performance

Managers need to make rewards contingent on performance. Rewarding factors other than performance will only reinforce those other factors. Key rewards such as pay increases and promotions should be given for the attainment of the employee's specific goals. Managers should also look for ways to increase the visibility of rewards. Eliminating the secrecy surrounding pay by openly communicating everyone's compensation, publicizing performance bonuses, and allocating annual salary increases in a lump sum rather than spreading them out over the entire year are examples of actions that will make rewards more visible and potentially more motivating.

Check the System of Equity

Employees should perceive that rewards or outcomes are equal to the inputs given. On a simplistic level, experience, ability, effort, and other obvious outcomes. The problem, however, is complicated by the existence of dozens of both inputs and outcomes and by the fact that employee groups place different degrees of importance on them. For instance, a study comparing clerical and production workers identified nearly twenty inputs and outcomes. The clerical workers considered factors such as quality of work performed and job knowledge near the top of their input list, but these factors were at the bottom of the production workers list. Similarly, production workers thought the most important inputs were intelligence and personal involvement with the task to be accomplished, two factors that were quiet low in the clerks' importance ratings. There were also important, though less dramatic, differences on the outcome side. For example, production workers rated advancement very high, whereas clerical workers rated advancement in the lower third on their list. Such findings suggest that one person's equity is another's inequity, so an ideal reward system should probably weigh inputs differently in arriving at the proper rewards for each job.

Don't Ignore Money

It's easy to get so caught up in setting goals, creating interesting jobs, and providing opportunities for participation that one forgets that money is a major reason why most people work. Thus, the allocation of performance based wage increases, piecework bonuses, and other pay incentives is important in determining employee motivation. A review of eighty studies evaluating motivational methods and their impact on employee productivity supports this point. Goal setting alone, produced on overage, a 16 percent increase in productivity, redesign efforts, to enrich jobs yielded 8 to 16 percent increases; employee participation in decision making produced a median increase of less than 1 percent; and monetary incentives led to an average increase of 30 percent. We're not saying management should focus solely on money. Rather, we're simply stating the obvious that is, if

money is removed as an incentive, people aren't going to show up for work. The same can't be said for removing goals, enriched work, or participation.

TYPES OF DISCIPLINE PROBLEMS AND EXAMPLES OF EACH

Attendance	Absenteeism, tardiness, abuse of sick leave
On-the-Job Behaviors	Insubordination, failure to use safety devices, alcohol or drug abuse
Dishonesty	Theft, lying to superiors, falsifying information on employment applications
Outside Activities	Working for a competing organization, criminal activities, unauthorized strike activities

Discipline

When an employee's performance regularly isn't up to par or if an employee consistently ignores the organization's standards and regulations, the manager may have to use discipline as a way to control behavior. What specifically do we mean when we use the term discipline? It refers to actions taken by a manager to enforce the organization's standards and regulations. The table above lists the most common types of behavior problems that discipline is used to control and correct. But knowing what managers' discipline isn't enough? We also need to look at how managers can discipline employees effectively.

The "Hot Stove" Rule of Discipline

The "hot stove" rule is a frequently cited set of principles that can guide you in effectively disciplining an employee. The name comes from the similarities between touching a hot stove and administering discipline. Both are painful, but the analogy goes further. When you touch a hot stove, you get an immediate response. The burn you receive is instantaneous, leaving no doubt in your mind about the relation between cause and effect. You have ample warning. You know what happens if you touch a hot stove. Furthermore, the result is consistent. Every time you touch a hot stove, you get the same result you get burned. Finally, the result is Impersonal, Regardless of who you are, if you touch a hot stove, you will get burned.

The analogy with discipline should be apparent, but let's briefly expand on each of these four points, since they're central ideas in developing your disciplining skills.

1. Immediacy: The effectiveness of a disciplinary action will be reduced as the time between the infraction and the penalty lengthens. The more quickly the discipline follows the offense, the more likely it is that the employee will associate the discipline with the offense rather than with you as the dispenser of the discipline. Therefore it's best to begin the disciplinary process as soon as possible after you notice a violation. Of course, the immediacy requirement shouldn't result in undue haste: Fair and objective treatment shouldn't be compromised for expediency.

2. Advance warning: As a manager, you have an obligation to give advance warning before initiating disciplinary action. This means that the employee must be aware of the organization's rules and accept its standards of behavior. Disciplinary action is more likely to be interpreted by employees as fair when they've received clear warning that a given violation will lead to discipline and when they know what that discipline will be.

3. Consistency: Fair treatment of employees demands that disciplinary action be consistent. If you enforce rule violations in an inconsistent manner, the rules will lose their impact, morale will decline, and employees will question your competence. Productivity will suffer as a result of employee insecurity and anxiety. Your employees will want to know the limits of permissible behavior, and they'll look to your actions for guidance. Consistency, by the way, need not result in treating everyone exactly alike because that ignores mitigating circumstances. It however, put the responsibility on you to clearly justify disciplinary actions that might appear inconsistent to employees.

4. Impersonal nature: The last guideline that flows form the "hot stove" rule is to keep the discipline impersonal. Penalties should be connected with a given violation, not with the personality of the individual violator. That is, discipline should be directed at what the employee has done, not at the employee. You are penalizing the rule violation, not the individual. Once the penalty has been imposed, you must make every effort to forget the incident and attempt to treat the employee just as you did before the problem.

Developing Effective Discipline Skills

The essence of effective disciplining can be summarized by the following seven behaviors.

1. Confront the employee in a calm, objective, and serious manner:
Managers can facilitate many interpersonal situations with a loose, informal and relaxed manner. The idea in such situations is to put the employee at ease. But

administering discipline isn't one of those situations. Although you should try to avoid anger or other highly charged, emotional responses, don't try to lessen the tension by cracking jokes or making small talk. Such actions are likely to confuse the employee because they send conflicting signals. Instead, convey your comments in a calm, serious tone.

2. State the problem specifically:

When you sit down with the employee, indicate that you have documentation and be specific and about the problem behavior. Give the date, time, place, individuals involved, and any mitigating circumstances surrounding the violation. Be sure to define the violation in exact terms instead of just reciting company regulations or terms from the union contrast. It's not the violation of the rules per so that you want to convey concern about. It's the effect that the rule violation has on the work unit's performance. Explain why the behavior can't be continued by showing how it specifically affects the employee's job performance, the unit's effectiveness, and the employee's colleagues.

3. Keep the discussion impersonal:

As we stated earlier, criticism should focus on the employee's behavior rather than on the individual personally. For instance, if an employee has been late for work several times, point out how this behavior has increased the workload of others or has lowered departmental morale. Don't criticize the person for being thoughtless or irresponsible.

4. Allow the employee to explain his or her position:

Regardless of what facts you've uncovered, even if you have the proverbial "smoking gun" to support your accusations, due process demands that you give the employee the opportunity to explain his or her position. From the employee's perspective, what happened? Why did it happen? What was his or her perception of the rules, regulations, and circumstances? If there are significant discrepancies between you version of the violation and the employee's, you might need to do more investigating.

5. Maintain control of the discussion:

In most interpersonal exchanges, you want to encourage open dialogue. You want to give up control and create a climate of open communication and trust between equals. However, once again, this won't work in administering discipline. Why? Because violators are prone to use any opportunity to put you on the defensive. In other words, if you don't take control, they will. Disciplining an employee is, by definition, and authority based action. You are enforcing the organization's standards and rules, so take control. Ask the employee for his or her side of the story. Get the facts. But don't let the employee interrupt you or divert you from your objective.

6. Obtain agreement on how mistakes can be prevented in the future:
Disciplining should include guidance and direction for correcting the problem. Let the employee state what he or she plans to do in the future to ensure that the violation isn't repeated. For serious violations, have the employee draft a step-by-step plan to change the problem behavior. Then set a timetable with follow-up meetings in which progress can be evaluated. However, make sure the individual realizes that his or her behavior must change or more serious action will be taken.

7. Select disciplinary action progressively, considering mitigating circumstances:
Choose a punishment that's appropriate to the crime. Penalties should get progressively stronger if, or when, an offense is repeated. Typically, progressive disciplinary action begins with a verbal warning and then proceeds through a written reprimand, suspension, a demotion or pay cut, and finally, in the most serious cases, dismissal. The punishment you select should be viewed as fair and consistent. This means talking into account any mitigating circumstances. For example, how severe is the problem? Have there been other disciplinary problems with this particular employee? If so, what and for how long? To what extent has the employee been previously warned about the inappropriate behavior? How have similar infractions been handled in the past? Answers to such questions can help to ensure that mitigating circumstances are considered.

Chapter 3

Inventory Resource System & Management

- *Definition*
- *Perpetual inventory system*
- *Periodic inventory system*
- *Key terms of inventory*
- *Taking physical inventory*
- *Inventory ordering*
- *Fixed interval re ordering*
- *Leasing*
- *Just in time inventory system*
- *Fore casting*

Inventory Valuation

Inventory Defined:

One of the largest current assets of a retail store or of a wholesale business is the inventory of merchandise. The sale of this merchandise is the major source of revenue. In a merchandising company, the inventory consists of all goods owned ad held for sale to customers. Inventory is converted into cash within the company's operating cycle and, therefore, is regarded as a current asset. In the balance sheet, inventory is listed immediately after accounts receivable because it is just one step further removed from conversion into cash than are the accounts receivable.

Two approaches used in accounting:
Either of two approaches may be used in accounting for merchandising. Transactions: (1) a perpetual inventory system or (2) a periodic inventory system. In past decades, both systems were in widespread use. Today, however, most large businesses (and many smaller ones) use perpetual systems. Periodic systems are used primarily in small businesses with manual accounting systems.

Perpetual Inventory System:

In a perpetual inventory system, merchandising transactions are recorded as they occur. The system draws its name from the fact that the accounting records are kept perpetually up-to-date. Purchases of merchandise are recorded by debiting an asset account entitled inventory. When merchandise is sold, two entries are necessary: one to recognize the revenue earned and the second to recognize the related cost of goods sold. This second entry also reduces the balance of the inventory account to reflect the sale of some of the company's inventory.

A perpetual inventory system includes an inventory subsidiary ledger. This ledger provides company personnel with up-to-date information about each type of product that the company sells, including the per unit cost and the number of units purchased, sold, and currently on hand.

The Inventory Subsidiary Ledger: An inventory subsidiary ledger includes a separate account (or "inventory card") for each type of product in the company's inventory. A specimen of the subsidiary/stock/store ledger card is illustrated below:

<table>
<tr><td colspan="10">Item ______________________ Supplier _______________________
Description ________________ Inventory level Min. ___________ Max. ______
Location ___________________</td></tr>
<tr><td></td><td colspan="3">Purchases/Received</td><td colspan="3">Sold/Issued</td><td colspan="3">Balance</td></tr>
<tr><td>Date</td><td>Qty.</td><td>Rate</td><td>Amount</td><td>Qty.</td><td>Rate</td><td>Amount</td><td>Qty.</td><td>Rate</td><td>Amount</td></tr>
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</table>

Periodic Inventory System:

A periodic inventory system is an alternative to a perpetual inventory system. In a periodic inventory system, no effort is made to keep up-to-date records of either the inventory or the cost of goods sold. Instead, these amounts are determined only “periodically” usually at the end of each year.

Operation of a periodic inventory system: A traditional periodic inventory system operates as follows. When merchandise is purchased, its cost is debited to an account entitled purchases, rather than to the inventory account. When merchandise is sold, an entry is made to recognize the sale revenue, but no entry is made to record the cost of goods sold or to reduce the balance of the inventory account. As the inventory records are not updated as transaction occurs, there is no inventory subsidiary inventory subsidiary ledger.

The foundation of the periodic inventory system is the taking of a complete physical inventory at year end. This physical count determines the amount of inventory appearing in the balance sheet. The cost of goods sold for the entire year then is determined by a short computation.

Comparison of the two systems: Perpetual systems are used when management needs information throughout the year about inventory levels and gross profit. Periodic systems are used when the primary goals are to develop annual data and to minimize record keeping requirements. One business often uses different inventory systems in accounting for different types of merchandise.

Inventory Valuation Methods:

1. **First-in, First-out Method,** often called FIFO, is based upon the assumption that the first merchandise purchased is the first merchandise sold.

2. **Last-in, First-out Method,** commonly known as LIFO, is among the most widely used methods of determining the cost of goods sold and valuing inventory. As the name suggests, the most recently purchased merchandise (that last-in) is assumed to be sold first.

3. **Average-Cost Method:** When the average cost method is in use, the average cost of all units in the inventory is computed after every purchase. This average cost is computed by dividing the total cost of goods available for sale by the number of units in inventory. As the average cost may change following each purchase, this method also called moving average.

4. **Specific Identification:** The specific identification method can be used only when the actual costs of individual units of merchandise can be determined from the accounting records.

5. **The Lower-of-Cost or Market (LCM) Rule:** An asset is an economic resource. It may be argued that no economic resource is worth more than it would cost to replace that resource in the open market. For this reason, accountants traditionally have valued inventory in the balance sheet at the lower of its (1) cost or (2) market. In the context, "market value" means current replacement cost. Thus, the inventory is valued at the lower of its historical cost or its current replacement cost.

ILLUSTRATION # 1

From the following transactions prepare a store ledger account using the FIFO and LIFO method:

March 1	Opening Inventory	500 units @ Rs. 20.00
March 4	Purchases	400 units @ Rs. 21.00
March 6	Issued	600 units
March 8	Purchased	800 units @ Rs. 24.00
March 9	Issued	500 units
March 13	Issued	300 units
March 25	Purchased	500 units @ Rs. 25.00
March 30	Issued	400 units

Solution:

FIFO Method

Date	Received			Issued			Balance		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
March 1	Balance						500	20	10,000
4	400	21	8,400				500 400	20 21	10,000 8,400
6				500 100	20 21	10,000 2,100	300	21	6,300
8	800	24	19,200				300 800	21 24	6,300 19,200
9				300 200	21 24	6,300 4,800	600	24	14,400
13				300	24	7,200	300	24	7,200
25	500	25	12,500				300 500	24 25	7,200 12,500
30				300 100	24 25	7,200 2,500	400	25	10,000

LIFO Method

Date	Received			Issued			Balance		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
March 1	Balance						500	20	10,000
4	400	21	8,400				500 400	20 21	10,000 8,400
6				400 200	21 20	8,400 4,000	300	20	6,000
8	800	24	19,200				300 800	20 24	6,000 19,200
9				500	24	12,000	300 300	20 24	6,000 7,200
13				300	24	7,200	300	20	6,000
25	500	25	12,500				300 500	20 25	6,000 12,500
30				400	25	10,000	300 100	20 25	6,000 2,500

ILLUSTRATION # 2

Following record of purchase of material and issuance has been taken from the books of Saima & Co.

2005 June 1	Inventory 3800 units @ Rs. 12/- per unit.
3	Issued 1200 units to factory.
5	100 units are returned to seller.
7	Purchased 400 units @ Rs. 14/- per unit.
11	Issued 1000 units to factory.
15	Issued 800 units to factory.
18	Purchased 550 units @ Rs. 15/- per unit.
24	50 units issued to factory on 11th are returned to store.
26	Issued 350 units to factory.
31	Purchased 1200 units @ Rs. 13.50 per unit.

Required: Compute the value of ending inventory under FIFO, LIFO and Average methods.

Solution:

FIFO Method

Date	**Received**			**Issued**			**Balance**		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
June 1	Balance						3800	12.00	45,600
3				1,200	12	14,400	2600	12.00	31,200
5	**(100**	**12**	**1200)**				2500	12.00	30,000
7	400	14	5,600				2500 400	12.00 14.00	30,000 5,600
11				1,000	12	12,000	1500 400	12.00 14.00	18,000 5,600
15				800	12	9,600	700 400	12.00 14.00	8,400 5,600
18	550	15.00	8,250				700 400 550	12.00 14.00 15.00	8,400 5,600 8,250
24				**(50**	**12**	**600)**	750 400 550	12.00 14.00 15.00	9,000 5,600 8,250
26				350	12	4,200	400 400 550	12.00 14.00 15.00	4,800 5,600 8,250
31	1200	13.50	16,200				400	12.00	4,800

							400 550 1200	14.00 15.00 13.50	5,600 8,250 16,200
			74,450			**39,600**			**34,850**

Answer: Value of Ending Inventory Rs. 34,850
Value of Material Issued Rs. 39,600
Value of Material purchased Rs. 74,450 (Inventory + Purchases – Returns)

LIFO Method

Date	**Received**			**Issued**			**Balance**		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
June 1	Balance						3800	12.00	45,600
3				1200	12	14,400	2600	12.00	31,200
5	**(100**	**12**	**1200)**				2500	12.00	30,000
7	400	14	5,600				2500 400	12.00 14.00	30,000 5,600
11				400 600	14 12	5,600 7,200	1900	12.00	22,900
15				800	12	9,600	1100	12.00	13,200
18	550	15.00	8,250				1100 550	12.00 15.00	13,200 8,250
24				**(50**	**12**	**600)**	1150 550	12.00 15.00	13,800 8,250
26				350	12	4,200	1150 200	12.00 15.00	13,800 8,250
31	1200	13.50	16,200				1150 550 1200	12.00 15.00 13.00	13,800 8,250 16,200
						41,450			**33,000**

Answer: Value of Ending Inventory: Rs. 33,000

LIFO Method

Date	**Received**			**Issued**			**Balance**		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
June1	Balance						3800	12.00	45,600
3				1200	12	14,400	2600	12.00	31,200
5	**(100**	**12**	**1200)**				2500	12.00	30,000
7	400	14	5,600				2900	12.27586	35,600
11				1000	12.27586	12275.86	1900	12.27586	22324.14
15				800	12.27586	9820.68	1100	12.27586	13503.34
18	550	15.00	8,250				1650	13.183842	21753.34
24				**(50**	**13.183842**	**659.19)**	1700	13.183842	22412.53
26				350	13.183842	4614.34	1350	13.183842	17798.19
31	1200	13.50	16,200				2550	13.332623	33998.19

ILLUSTRATION # 3

Following are the transactions of Amjad & Co. for the month of May 2005. You are required to record the said transactions in the store ledger card under FIFO, LIFO and Average methods:

2005 May 1	Inventory on hand 300 units @ Rs. 2.50 and 300 units @ 2.20.
3	200 units of the opening inventory were returned to supplier being defective.
5	150 units are issued to production.
7	50 units are issued to factory.
15	500 units are received at unit price Rs. 2.75
25	250 units are issued to factory.
27	275 units are received @ Rs. 2.25
29	500 units are issued to factory.
31	50 units issued to factory on May 5 are returned to store.

Solution:

FIFO Method

Date	**Received**			**Issued**			**Balance**		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
May 1	Balance						300 300	2.50 2.20	750 660
3	**(200**	**2.50**	**500)**				100 300	2.50 2.20	250 660
5				100 50	2.50 2.20	250 110	250	2.20	550
7				50	2.20	110	200	2.20	440
15	500	2.75	1375				200 500	2.20 2.75	440 1375
25				200 50	2.20 2.75	440 137.50	450	2.75	1237.50
27	275	2.25	618.75				450 275	2.75 2.25	1237.50 618.75
29				450 50	2.75 2.25	1237.50 112.50	225	2.25	506.25
31				**(50**	**2.20**	**110)**	50 225	2.20 2.25	110.00 506.25

Value of Ending Inventory = Rs. 616.25
Value of Material issued/cost of goods sold (Issued – Returns) Rs.
Value of Purchases (Balance + Purchases – Returns) Rs.

LIFO Method

Date	Received			Issued			Balance		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
May 1	Balance						300 300	2.50 2.20	750 660
3	**(200**	**2.20**	**440)**				300 100	2.50 2.20	750 220
5				100 50	2.20 2.50	220 125	250	2.50	625
7				50	2.50	125	200	2.50	500
15	500	2.75	1375				200 500	2.50 2.75	500 1375
25				250	2.75	687.50	200 250	2.50 2.75	50.00 687.50
27	275	2.25	618.75				200 250 275	2.50 2.75 2.25	500.00 687.50 618.75
29				275 225	2.25 2.75	618.75 618.75	200 25	2.50 2.75	500.00 68.75
31				**(50**	**2.50**	**125)**	200 25 2.50	2.50 2.75 2.50	500.00 68.75 125.00

Value of Ending Inventory = Rs. 693.75
Value of cost of goods sold (issued cost – Returns) Rs.
Value of purchases (balance + purchases – Returns) Rs.

AVERAGE Method

Date	Received			Issued			Balance		
	Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	Rate	Amount
May 1	Balance						600	2.35	1410.00
3	**(200**	**2.35**	**470)**				400	2.35	940.00
5				150	2.35	352.50	250	2.35	940.00
7				50	2.35	117.50	200	2.35	587.50
15	500	2.25	1375				700	2.6357	1845.00
25				250	2.6357	658.925	450	2.6357	1186.065
27	275	2.25	618.75				725	2.4894	1804.815
29				500	2.4894	1244.70	225	2.4894	560.115
31				**(50**	**2.4894**	**124.47)**	275	2.4894	684.585

Periodic Inventory System

ILLUSTRATION # 4

Following is the data, which relates to the opening inventory and purchases of the products made by Sony Company for the month of January 2005:

Balance on hand ……………………….	5,000 units @ Rs. 2.00
January 5 ………………………………	4,000 units @ Rs. 2.10
January 8 ………………………………	7,000 units @ Rs. 2.25
January 12 …………………………….	5,000 units @ Rs. 2.40
January 25 …………………………….	3,000 units @ Rs. 2.60
Total Units …………………………….	24,000

During the month, 20,000 units were sold.

Compute (1) the ending inventory and (2) the cost of goods sold under each of the following methods:

a. FIFO
b. LIFO
c. AVERAGE

Solution:

1. Units available for sale (-) unit sold = Ending Inventory
24,000 (-) 20,000 = **4,000**

a. Ending Inventory under FIFO Method

November 20	3,000 units @ Rs. 2.60 =	Rs. 7,800
August 12	1,000 units @ Rs. 2.40 =	Rs. 2,400
	4,000 =	**Rs.10,200**

b. Ending Inventory under LIFO Method

January 1	4,000 units @ Rs. 2.00 =	**Rs. 8,000**

c. Ending Inventory under Average Method

January 1	5,000 units @ Rs. 2.00	Rs. 10,000
March 15	4,000 units @ Rs. 2.10	Rs. 8,400
May 10	7,500 units @ Rs. 2.25	Rs. 15,750

August 12	5,000 units @ Rs. 2.40	Rs. 12,000
November 10	3,000 units @ Rs. 2.60	Rs. 7,800
	24,000	Rs. 53,950

Average Rate = $\frac{\text{Total cost } 53,950}{\text{Total units } 24,000}$ = Rs. 2.248 per unit

Value of Ending Inventory = 4,000 units x Rs. 2.248 = **Rs. 8,992**

2. Cost of Goods Sold under each method

a. Cost of Goods available for sale = Rs. 53,950
Less Ending Inventory (FIFO) Rs, 10,200
Cost of Goods Sold **Rs. 43,750**

b. Cost of Goods available for sale Rs. 53,950
Less Ending Inventory (LIFO) Rs. 8,000
Cost of Goods Sold **Rs. 45,950**

c. Cost of Goods available for sale Rs. 53,950
Less Ending Inventory (Average) Rs. 8,992
Cost of goods Sold **Rs. 44,958**

ILLUSTRATION # 5

From the following details, you are required to calculate value of ending inventory under, FIFO, LIFO, and AVERAGE methods and also cost of goods sold.

June 1	Inventory	50 units @ Rs. 1.00 =	Rs. 50
June 6	Purchased	50 units @ Rs. 1.10 =	Rs. 55
June 13	Purchased	150 units @ Rs. 1.20 =	Rs. 180
June 20	Purchased	100 units @ Rs. 1.30 =	Rs. 130
June 25	Purchased	150 units @ Rs. 1.40 =	Rs. 210
	Total	500 units	Rs. 625

During the month of June 280 units were sold and the inventory on hand was 220 units.

Ending Inventory under FIFO method:

150 units @ Rs. 1.40	Rs. 210
70 units @ Rs. 1.30	Rs. 91
Value of ending inventory =	Rs. 301

Ending Inventory under LIFO method:

50 units @ Rs. 1.00	Rs. 50
50 units @ Rs. 1.10	Rs. 55
120 units @ Rs. 1.20	Rs. 144
Value of Ending Inventory	Rs. 249

Ending Inventory under Average method:

Average per unit cost =	Rs. 625/500 units =	Rs. 1.25
Value of ending inventory =	Rs, 1.25 x 220 =	Rs. 275

Cost of Goods Sold:

	FIFO	LIFO	Average
Cost of units available for sale	Rs. 625	Rs. 625	Rs. 625
Less Ending Inventory	Rs. 301	Rs. 249	Rs. 275
Cost of Goods Sold	Rs. 324	Rs. 376	Rs. 350

Key Terms of Inventory

Average cost method
A method of valuing all units in inventory at the same average per limit cost, which is recomputed after every purchase.

Consistency (in inventory valuation)
An accounting standard that calls for the same method of inventory pricing from year to year, with full disclosure of the effects of any change in method. Intended to make financial statements comparable.

Cost flow assumption
Assumption as to the sequence in which units are removed from inventory for the purpose of sale. Is not required to parallel the physical movement of merchandise if the units are homogeneous.

Cost layer
Units of merchandise acquired at the same unit cost. An inventory comprised of several cost layers is characteristic of all inventory valuation methods except average cost.

Cost ration
The cost of merchandise expressed as a percentage of its retail-selling price. Used in inventory estimating techniques, such as the gross profit method and the retail method.

First-in, first-out (FIFO) method
A method of computing the cost of inventory and the cost of goods sold based on the assumption that the first merchandise acquired is the first merchandise sold and that the ending inventory consists of the most recently acquired goods.

F.O.B destination
A term meaning the seller bears the cost of shipping goods to the buyer's location. Title to the goods remains with the seller while goods are in transit.

F.O.B shipping point
The buyer of goods bears the cost of transportation from the seller's location to the buyer's location. Title of the goods passes at the point of shipment, and the goods are the property of the buyer while in transit.

Gross profit method
A method of estimating the cost of the ending inventory based on the assumption that the rate of gross profit remains approximately the same from year to year.

Inventory turnover rate
The cost of goods sold divided by the average amount of inventory. Indicates how many times the average inventory is sold during the course of year.

Just-in-time (JIT) inventory system
A technique designed to minimize a company's investment in inventory. In a manufacturing company, this means receiving purchases of raw materials just in time for use in the manufacturing process and completing the manufacture of finished goods just in time to fill sales orders. Just-in-time also may be described as the philosophy of constantly striving to become more efficient.

Last-in, first-out (LIFO) method
A method of computing the cost of goods sold by use of the prices paid for the most recently acquired units. Ending inventory is valued on the basis of prices paid for the units first acquired.

LIFO reserve
The difference between the current replacement cost of a company's inventory and the LIFO cost shown in the account records. The fact that a LIFO reserve can become very large is the principal shortcoming of the LIFO method.

Liquidation of LIFO reserve
Selling merchandise from a LIFO inventory to the point at which old and relatively low costs are transferred from inventory into the cost of goods sold. Tends to inflate reported profits.

Lower-of-cost or market (LCM)
A method of inventory pricing in which goods are valued at original cost or replacement cost (market), whichever is lower.

Physical inventory
A systematic count of all goods on hand, followed by the application of unit prices to the quantities counted and development of a dollar valuation of the ending inventory.

Retail method
A method of estimating the cost of goods sold and ending inventory. Similar to the gross profit method, except that the cost ratio is based on current cost-to-retail price relationships rather than on those of the prior year.

Shrinkage losses
Losses of inventory resulting from theft, spoilage, or breakage

Specific identification
Recording as the cost of goods sold the actual costs of the specific units sold. Necessary if each unit in inventory is unique, but not if the inventory consists of homogeneous products.

Write-down (of an asset)
A reduction in the carrying value of an asset because it has become obsolete or its usefulness has otherwise been impaired. Involves a credit to the appropriate asset account, with an offsetting debit to a loss account.

Taking a Physical Inventory

The basic characteristic of the perpetual inventory system is that the inventory account is continuously updated for all purchases and sales of merchandise. When a physical inventory is taken, management uses the inventory ledger to determine on a product-by-product basis whether inventory on hand corresponds to the amount indicated in the inventory subsidiary ledger. Over time normal inventory shrinkage usually causes some discrepancies between the quantities of merchandise shown in the inventory records and the quantities actually on hand. Inventory shrinkage refers to unrecorded decreases in inventory resulting from such factors as breakage, spoilage, employee theft, and shoplifting.

In order to ensure the accuracy of their perpetual inventory records, most businesses take a complete physical count of the merchandise on hand at least once a year. This procedure is called taking a physical inventory, and it usually is performed near year-end. Once the quantity of merchandise on hand has been determined by a physical count, the per unit costs in the inventory ledger accounts are used to determine the total cost of the inventory. The inventory controlling account and the accounts in the inventory subsidiary ledger then are adjusted to the quantities and dollar amounts indicated by the physical inventory.

To illustrate, assume that at year-end the inventory controlling account and inventory subsidiary ledger of computer barn both show an inventory with a cost

of $72,000. A physical count, however, reveals that same of the merchandise listed in the accounting records in missing; the items actually on hand have a total cost of $70,000. Computer barn would make the following adjusting entry to correct its inventory controlling account:

Cost of Goods Sold…………………………………… 2,200
Inventory ……………………………………………………. 2,000

To adjust the perpetual inventory records to reflect the results of the year-end physical count.

Computer barn also will adjust the appropriate accounts in its inventory subsidiary ledger to reflect the quantities indicated by the physical count. Reasonable amounts of inventory shrinkage are viewed as a normal cost of doing business and simply are debited to the cost of goods sold account, as illustrated above.

Inventory Ordering Systems

In many personal checkbooks, you'll find a reorder form inserted in among the remaining checks after you've used about 95 percent of them. It reminds you that it's time to reorder. This is an example of a fixed-point reordering system. At some pre-established point in the operations process, the system is designed to "flag" or alert users to the fact that the inventory needs to be replenished. The flag is triggered when the inventory reaches certain point or level.

The goal of a fixed-point reordering system is to minimize inventory-carrying costs and to ensure a reasonable level of customer service (limiting the probability of an item running out a stock out). Therefore, the reorder point should be established to equate the time remaining before a stock-out and the lead-time to receive delivery of the reordered quantity. Ideally, in such cases, the newly ordered items would arrive at the same time as the last item in inventory was used up. More realistically, management doesn't usually allow the inventory to fall below some safety stock level. By using certain statistical procedures, decision makers can set a reorder point at a level that gives an organization enough inventory to get through the lead-time period and some reasonable insurance against a stock-out. This buffer, or safety stock, gives protection against greater usage than expected during the lead-time or an unexpected delay in receiving new stock.

As a simple example, to determine a personal check reorder point, let's assume that the order lead time averages three weeks and that we write about 20 checks a week. We would need 60 checks to get us through a "normal" reordering lead-

time. If we feel, on the basis of past history of use, that a one-week safety stock would be sufficient to get us through most lead-time periods, the order should be placed when there are 80 (60+20) checks left in the checkbook. This is the reorder point. Another word of caution: The more safety stock, the less the risk of stock-out. But the additional inventory will add to the carrying costs. Thus we again face a cost benefit decision. At times it may be more prudent (cost-wise) to run out of stock.

One of the most primitive, but certainly effective, manual uses of the fixed-point reordering system is to keep the item for example, pens and copy paper in an office drawn from one until it's empty. At that point, a reorder is placed, and items are drawn from the second container. If demand for an item has been estimated properly, the replacement order to replenish the stock should arrive before the second container is used up.

Another, more recent version of the fixed-point reorder system relies on computer control. Sales are automatically recorded by a central computer that's been programmed to initiate a purchase order for an item when its inventory reaches some crucial fixed point. Many retail stores now use such systems. The cash registers are actually computers, and when each product's bar code is scanned at the time a customer checks out, the store's inventory record is automatically adjusted. When the inventory of an item hits the critical point, the computer tells management to reorder or, in some systems, actually prints out the purchaser order requisition.

Another common inventory system is the fixed-interval reordering system. The fixed-interval system uses time as the determining factor for inventory control. At a predetermined time say once a week or every ninety days the inventory is counted, and an order is placed for the number of items necessary to bring the inventory back to the desired level. The desired level is established so that if demand and ordering lead time are average, consumption will draw the inventory down to zero (or some safety lead time can be added) just as the next order arrives. This system may have some transportation economics and quantity discount economics over the fixed-point system. For example, it might allow the organization to consolidate orders from one supplier if all the items purchased from this source are reviewed at the same time. This isn't possible with the fixed-point system.

In the 1980s, economist Vilfredo Pareto found that 80 percent of the wealth was controlled by only 20 percent of the population. College instructors typically find that a few students cause most of their problems, and students have probably similarly found that a few instructors cause most of their problems. This concept the vital few and the trivial many can be applied to inventory control.

It's not unusual for a company to have thousands of items in inventory. However, evidence indicates that roughly 10 percent of the items in most organizations inventory account for 50 percent of the annual dollar inventory value. Another 20 percent of the items account for 30 percent of the value. The remaining 70 percent of the items appear to account for only 20 percent of the value. These have been labeled as A, B, and C categories, respectively. Thus we have the name ABC system.

Cost-benefit analysis would justify that A items receive the tightest control, B items moderate control, and C items the least control. This can be done because there are so few A items and they represent a large dollar investment. Similarly, there are so many C items, but so little dollar investment, that tight control wouldn't be justified. The A items, for example, might be monitored weekly, B items monthly, and C items quarterly because they account for so little dollar value. Or C items might be controlled by using a simple form of order point.

Leasing

Leasing is an old method of financing which is now gaining popularity almost in whole world. Under leasing there are two parties one is the owner or lesser of the asset. Other is the lessee or the party that takes the asset on lease. The lessee takes the asset for use for a specified period of time and makes rental payments. The ownership of the asset rests with the lesser but it is in the possession of the lessee and right of use is also transferred to lessee.

History

The concept of leasing is very old. It dates back to 5000 year ago when in southern Babylon oxen's, ploughs and ships were being leased. Afterwards in 11th century A.D battle ships, arms and weapons were taken on lease. In 1850 in England some joint stock companies started the business of leasing and Birmingham Wagon Company was the world first registered leasing company that was registered in 1855.

The leasing concept continued to develop in the modern economic world. As the market developed different innovative lease products also emerged. Today leasing has become the major source of asset financing in many developed countries. In developing countries like Sri Lanka, Peru, Thailand and Pakistan leasing is now getting importance and many leasing firms have been established there.

Types of Leasing

As already mentioned to take an asset on lease means to take the property of asset for use for a particular period of time against a payment called rent. However, there are different modes and types in which this can be done.

Following are different types of leasing. The two basic types of leasing are: Finance Lease and Operating Lease. These are explained below.

1. Finance Lease:

Under finance lease all risks and rewards of ownership of asset are transferred to lessee. The ownership or title may or may not be transferred. A finance lease is somewhat like a hire purchase agreement. Under finance lease the lessee after making an agreed amount of installments is entitled to exercise an option to become the owner of asset.

Example: Suppose the Saima Company takes on lease a new automobile for three year. Also assume that at the end of three years the Saima Company will be called to take the ownership of vehicle at no extra cost. Here not only the vehicle

is taken on lease but also the Saima Company is using the lease agreement as a means of financing the automobile. This type of leasing is called capital lease or finance lease.

2. Operating Lease:
According to international standard 17 the operating lease is one, which is not finance lease. In other words under operating lease, the lesser gives the right to lessee to use the asset or property for a specified period of time, but risks and rewards of ownership are retained by the lesser.

Example: Let up suppose that Amjad enterprises owns a complete 6^{th} floor in Eden Tower, a multistory building. Further assume that Amjad enterprises give some rooms of this floor on lease to Saima Company. Now if the value of this building increase due to good business activity then the lesser i.e. Amjad enterprises can take the benefit of this increase by either selling out the rooms or by increasing the rental amount. On the other hand it the building decreases in value than also the Amjad enterprises will be the sufferer of loss. This type of leasing called operating lease.

Besides these two main types, some types of leasing are explained below:

3. Sale and Lease Back:
Under sale and lease back agreement; an asset is first sold to the leasing company or financial institution. The sale is made at the genuine market value. After that the asset is taken back on a lease. This type of leasing is advantageous for those companies, which do not want to show high debt balances in their financial statement.

4. Capital Lease:
The financial standard board governs this type of leasing, which is not applicable in Pakistan. Under this type of leasing when lessee acquires an asset on lessee, he simultaneously recognizes it as a liability in the financial statement.

5. Leveraged Lease:
This type of leasing involves three parties a lender, a lesser and lessee. The lender and lesser join hands to accumulate funds to buy the asset. The asset purchased is then given on the lese to lessee. The lessee makes periodic payments to the lesser who in turn makes payment to the lender.

6. Cross Border Leasing:
Cross border leasing means to operate lease agreement in other countries, such type of leasing is very difficult in present circumstances. The reasons being that different accounting treatments, tax charges and incidental criteria prevail in

foreign countries. Also the tax rules differ from country to country. So a big problem arises as how to present such lease agreement in financial statement. However, as with recent developments the accounting treatments are being made similar for each item throughout the world by international accounting standards it is hoped that cross border leasing will rapidly flourish in near future.

Types of Leasing Contracts:

There are two types of leasing contracts that are explained below.

1. Closed end Leasing Contract:

Under such contract the lessee is neither liable for any reduction over and above that which is already estimated in the beginning, in the value of asset taken on lease. Nor is he going to enjoy any benefit from the increase in the value of asset that has occurred during the lease tenure.

To understand this study the following example. Suppose Tahir Company takes a car on lease from Amjad Corporation for one year. At the time of agreement the residual value of car after three years was estimated 70,000 the loss is to be born by leasing company. On the other hand if value comes out to be more than Rs. 70,000 the loss is to be born by leasing company. On the other hand if value comes out to be more than Rs. 70,000 leasing company will enjoy the benefit. This is a closed end-leasing contract.

2. Open End Leasing Contract:

Under this type of contract the lessee is bond to pay the amount equivalent to reduction in the value of asset over and the estimated reduction. In our previous example if after three years the car is worth of Rs. 50,000 then Tahir Company is bound to pay Rs. Rs. 20,000. On the other hand if the car is worth Rs. 80,000 Tahir Company will have the benefit of Rs. 10,000 under opened leasing contract.

Advantages of Leasing

Following are the advantages of leasing.

1. Economic Sensibility:

Leasing depicts economic sensibility. You know that when you use an asset if depreciates in value. After usage of some years when you sell it, it earns you a quite less amount as compared to what you spent on acquiring it. So the economic rationale says that we must try to take such asset on lease, which will depreciate in future. On the other hand, we should buy those assets, which appreciate in value with usage of passage of time.

2. Money Available for other Usage:

Leasing helps you in maintaining your cash flows. With the help of leasing an asset can be acquired without making any heavy cash outflow. In this way cash is available for meeting other short-term liabilities.

3. No Down Payment:

A growing business is deficient of cash most of the times. Leasing is the only way through which requirements of expansion of business can be met without making any heavy payments. Unlike hire purchases leasing does not require any heavy down payment.

4. Preservation of Working Capital:

Leasing helps you in preserving your working capital and in making your business more sound and productive. If you decide not to lease, you will have to pay considerable huge down payments for traditional financing. Leasing keeps your precious working capital in the bank, maintains the balance of your current accounts and makes the lines of credit available to you for other uses.

5. Protection Against Inflation:

Leasing is perfectly suitable in the economy, which experiences high inflation trends. When you take an asset on lease and promises to make monthly or annual payments, you become a debtor of leasing company and leasing company becomes your creditor. You make payment in rupees, which continue to inflate every second. And it is a well-known fact that during inflation creditors loose and debtors gain.

6. Tax Advantage:

When you buy an asset for a heavy amount you have to show evidences to the tax authorities that money was genuinely earned by you. Also you have to capitalize this expense and periodic charge is made in profit and loss account by way of depreciation. However, if you take asset on lease, it saves you from any tedious tax inspection. Also you can show the whole annual rental payments as a revenue expenses in financial statements.

7. Saving in Duties, Taxes:

When you purchase an asset you have to pay duties, taxes, custom payments etc. in case of leasing you are saved from such payments.

8. Flexibility of Options:

Under leasing the businessman has the flexibility of operations. Under purchase, you have no other option but to sale the asset after use. However, under leasing following options are available.

1. At the end of lease you can purchase the asset if you intend to use it further.
2. You can renegotiate the contact of lease.
3. You can return the asset to the leasing company and shift to other new and more advanced asset.

9. Leasing Hedges against Obsolescence:

Leasing allows you to always remain up to date with the latest equipment and technology. If you take equipment in lease then upgrading to the newer and advanced technology, then there is an incentive to postpone any upgrading until the original investment has been recovered by the use of asset.

Leasing in Islam

Islamic term for leasing is "Ijara". Similarly in Islamic terminology lesser is called Ajir and lessee is called Mustageer. All eminent Muslim Jurists have approved financing by Ijara. It has also been reported by Hazrat Saeed Bin Abi Waqas (R.A) that in the age of Holy Prophet (PBUH) the owners of the land use to let their land on rent (lease).

Kinds of Ijara:

Ijara Al-Fard: As the name implies it means that only one person hires any good or service or takes an asset on lease or ijara.

Ijara Al-Musha: This applies when number of persons jointly hires goods or services or takes any asset on lease.

Ijara Al-Dimma: This means hiring of services only for the term specified such a kind of Ijara in which only services of a particular person are hired.

Ijara Al-Ain: This means hiring of real goods. The term specifically implies to such Ijara, where real assets such as land, property, and machines are taken on hire.

Just-in-Time (JIT) Inventory Systems

In recent years, much attention has been paid to the just-in-time (JIT) inventory system in manufacturing operations. The phrase “just-in-time” usually means that purchases of raw materials and component parts arrive just in time for use in the manufacturing process often within a few hours of the time they are scheduled for use. A second application of the just-in-time concept is completing the manufacturing process just in time to ship the finished goods to customers.

One advantage of a just-in-time system lies in reducing the amount of money tied up in inventories of raw materials and finished goods. Also, the manufacturing company does not need to maintain large inventory storage facilities. A disadvantage of a just-in-time system is that a delay in the arrival of essential materials may bring manufacturing operations to a halt. Therefore, just-in-time scheduling of incoming materials is feasible only when the suppliers and the transportation systems are highly reliable.

One of the pioneers of just-in-time manufacturing is Toyota, the Japanese automaker. Toyota’s main plant is located in an area of Japan called “Toyota City”. Many of the company’s suppliers of direct materials also are located in Toyota City and produce materials primarily for Toyota. Thus the suppliers’ economic survival depends on meeting their delivery schedules at the Toyota plant.

Although a just-in-time system reduces the size of a company’s inventories, it does not eliminate them entirely. A recent annual report of Toyota, for example, shows inventories in excess of $3 billion. (Toyota values some of these inventories by the specific identification method and others by LIFO).

The concept of minimizing inventories applies more to manufacturing operations than to retailers. Ideally, manufacturers have buyers “lined up” for their merchandise even before the goods are produced. Many retailers, in contrast, want to offer their customers a large selection of in-stock merchandise, which means a big inventory.

The jut-in-time concept actually involves much more than minimizing the size of inventories. It has been described as the philosophy of constantly working to increase efficiency throughout the organization. One basic goal of an accounting system is to provide management with useful information about the efficiency or inefficiency of operations.

Forecasting

Environmental scanning creates the foundation for forecasts. Information obtained through scanning is used to develop scenarios. These, in turn, establish premises for forecasts, which are predictions of future outcomes.

Types of Forecasts

Two specific outcomes managers attempt to forecast are future revenues and new technological breakthroughs. However, virtually any component in the organization's general and specific environment can receive forecasting attention.

Quaker Oats projected sales level for its cereals influences purchasing requirements, production goals, employment needs, inventories, and numerous other decisions. Similarly, the university of Arkansas's income from tuition and state appropriations will influence course offerings, staffing needs, salary increases for faculty and staff, and the like. Both of these examples illustrate that predicting future revenues revenue forecasting is a crucial element of planning for both profit and non-for profit organizations.

Where does management get the date for developing revenue forecasts? Typically, it begins by looking at historical revenue figures. For example, what were last year's revenues? This figure can then be adjusted for any significant trends discovered during environmental scanning. What revenue patterns have evolved over recent years? What changes in social, economic or other factors in the general environment might after the pattern in the future? In the specific environment, what might our competitors be doing? Answers to such questions provide the basis for revenue forecasts.

Technological forecasting seeks to predict changes in technology and the time frame in which new technologies are likely to be economically feasible. The rapid pace of technological change has brought us innovations in lasers, biotechnology, robotics, and data communications and dramatically changed surgery techniques, pharmaceutical products, manufacturing processes used for almost every mass-produced product, and the use of cellular phones. The environmental scanning techniques discussed in the previous section can provide data on potential technological innovations.

As an example of how important technological forecasting can be, consider what's happened in the recorded music industry. Look at the merchandise in any music store and you'll have to search closely to find vinyl, long-play record albums or eight-track tapes. Between 1986 and 1992, some firms, including Columbia and MCA, saw these music mediums almost disappear. Consumers still want to listen to music but they preferred a new technology: compact disks. The record

companies that correctly forecasted this technology: compact disks. The record companies that correctly forecasted this technology and foresaw its impact on their business were able to convert their production facilities; CDs are already under attack from digital tape technology. Again, those in the music recording business who accurately forecast when, or if, this technology will become the preferred music medium are likely to score big in the market.

Forecasting Techniques

Forecasting techniques fall into two categories: quantitative and qualitative. Quantitative forecasting applies a set of mathematical rules to a series of past data to predict future outcomes. These techniques are preferred when management has enough "hard" data. Qualitative forecasting, in contrast, uses the judgment and opinions of knowledgeable people. Qualitative techniques typically are used when precise data are limited or hard to obtain. The table below lists some of the better-known quantitative and qualitative forecasting techniques.

TECHNIQUES	DESCRIPTION	APPLICATION
Quantitative		
Time series analysis	Fits a trend line to a mathematical equation and projects into the future by means of this equation	Predicting next quarter's sales based on four years of previous sales data
Regression models	Predicts one variable on the basis of known or assumed other variables	Seeking factors that will predict a certain level of sales (for example, price, advertising expenditures)
Econometric models	Uses a set of regression equations to simulate segments of the economy	Predicting change in car sales as a result of changes in tax laws
Economic indicators	Uses one or more economic indicators to predict a future state of the economy	Using change in GNP to predict discretionary income
Substitution effect	Uses a mathematical formula to predict how, when, and under what circumstances a new product or technology will replace an existing one	Predicting the effect of microwave ovens on the sale of conventional ovens
Qualitative		
Jury of opinion	Combines and averages the opinions of experts	Polling all the company's personnel managers to predict next year's

		college recruitment needs
Sales force composition	Combines estimates from field sales personnel of customers' expected purchases	Predicting next year's sales of industrial lasers
Customer evaluation	Combines estimates from established purchases	Surveying of major dealers by a car manufacturer to determine types and quantities of products desired

Forecasting Effectiveness

Despite the importance to strategic planning, managers have mixed success in forecasting trends and outcomes accurately.

Forecasting techniques are most accurate when the environment is not rapidly changing. The more dynamic the environment, the more likely management is to develop inaccurate forecasts. Forecasting also is relatively unimpressive in predicting non-seasonal events such as recessions, unusual occurrences, discontinued operations, and the actions or reactions of competitors.

Although forecasting has a mixed record, various research studies have proposed some suggestions for improving forecasting effectiveness. First, use simple forecasting techniques. They tend to do as well as, and often better than, complex methods that tend to mistakenly confuse random data for meaningful information. For instance, at St. Louis based Emerson Electric, CEO Chucks Knight found that forecasts developed as part of the company's planning process were indicating that the competition was no longer just domestic companies, but international ones as well. He didn't use any complex mathematical techniques to come to his conclusion but instead relied on the information already collected as part of his company's planning process. Second, compare every forecast with "no change". A no-change forecast is very accurate approximately half the time. Third, don't rely on a single forecasting method. Make forecasts with several models and average them, especially when making long-range forecasts. Fourth, don't assume that you can accurately identify turning points in a trend. What is typically perceived as a significant turning point often turns out to be an unusual random event. And fifth, shorten the length of forecasts to improve their accuracy, because accuracy declines the farther into the future you're trying to predict.

Chapter 4

Business Marketing & Sales

- *Marketing definition*
- *Needs & wants*
- *Product & service*
- *Demand management*
- *Customer relationship*
- *Consumer behavior*
- *Cultural factors*
- *Definition of salesmanship*
- *Qualities & factors of good sales person*
- *Sales promotion tools*
- *Channels of distribution*
- *Advertising*
- *Personal selling*
- *Types of sales man*
- *Retailing*
- *Whole selling*

Introduction to Marketing

Introduction

The term marketing comes from the word market – which is a group of sellers and buyers who are willing to exchange goods and services for something of value. Of course, some negotiation may be needed. This can be done face to face at some physical location, which is the starting point to the whole concept of marketing.

Thus any person or group with whom an individual or organization has an existing or potential exchange relationship can be considered as market. Marketing can occur any time when a person or organization strives to exchange of value with another person. Thus, the essence of marketing is a transaction or exchange. In this broad sense, marketing consists of activities designed to generate and facilitate exchanges intended to satisfy human needs and wants.

Definitions

1. "Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others".

2. "Marketing is a total system of business activities designed to plan, price, promote, and distribute want satisfying products to target markets to achieve organizational objectives".

Characteristics

A careful study of the above mentioned definition of marketing highlights the following characteristics.

1. Marketing is a total system of business activities. This characteristic highlights the importance of "System" concept. As a system, marketing function is part of the total enterprise, and derives its objectives, policies, and programs from the business enterprise. In its own right, marketing function is a system and its constituent elements (like product, price, promotion, etc.) are closely interrelated. The functioning of the marketing system determines, and is also determined by, the functioning of other systems like production, personnel, finance, research and development etc.

2. Marketing is concerned with the identification and development of products or services needed by customers. Unlike traditional orientation, the modern

concept of marketing makes a conscious and concerted effort to find out the needs and requirements of the members of the society, then developing those products or services according to the best capabilities available, and finally, making those goods and services available to customers with the maximum measure of satisfaction. In doing all of this, an intelligent marketing strategy – based on the elements of product, price, promotion, and the marketing manager formulates distribution. In other words, the modern concept of marketing is "consumer-oriented".

3. Marketing is performed to the mutual advantage of the customers and the business enterprise. Although this is not stressed in the definition, it is true that rendering maximum customer satisfaction cannot be at the cost of the business enterprise. Marketing is one of the functions of a business enterprise, which is performed with the object of realizing goals set for the enterprise.

Core Concept of Marketing

As business people began to recognize that marketing is vital to the success of their organizations, a new philosophy of doing business developed called the marketing concept. The following definition explains the marketing: -

"Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with other".

The above definition is based on the following core concepts: -

"Needs, Wants, Demands, Products, Exchange, Transactions and relationships, Markets and Marketing and Markets".

Needs

The most basic concept of marketing is that of human needs. A human need is a state of felt deprivation. Human have many complex needs. They include basic physical needs for food, clothing, warmth and safety. Social needs for belonging and affection whereas individual need for knowledge and self-expression. These needs are not created by their society or by marketers; they exist in very texture of human biology and the human condition. When a need is not satisfied, person will do one of two things, look for an object that will satisfy it or try to reduce the need. People in developed societies may try to find or develop objects that will satisfy their desires. People in less-developed societies may try to reduce their desires and satisfy them what is available.

Wants

The second basic concept in marketing is that of human wants. Wants are desires for specific satisfiers of these needs. Wants are described in term of objects that will satisfy needs. As a society evolves, the wants of its members expand.

Demands

Demands are wants for specific products that are back up by an ability and willingness to buy them. Wants become demands when backed by purchasing power.

Products

People satisfy their needs and wants with products. Product has been defined as a thing that can be offered to someone to satisfy a need or want. Normally the word product brings to mind a physical object, such as automobile, a television set or a soft drink. Whereas the concept of product is not limited to physical objects. Anything capable of satisfying a need can be called a product. In addition to goods and services, products include persons, places organizations, activities and ideas.

Exchange

Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is the act of obtaining a desired object form someone by offering something in return. Exchange is only one of many ways people can obtain a desired object. For exchange to take place, five conditions must be satisfied:

1. There are at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or a reject the offer.
5. Each party believes it is appropriate to deal with the other party.

The above said conditions simply make exchange possible.

Transactions

Whereas exchange is the core concept of marketing, a transaction is marketing’s unit of measurement. A transaction consists of a trade of values between two

parties. In a transaction, we must be able to say that Saima gives goods to Amjad and gets in return rupees. This is a monetary transaction. But not all transactions involve money. In a barter transaction, you might take your old Radio in return for a second hand TV.

Markets

The concept of exchange leads to the concept of a market.

"A market consists of all the potential customers sharing a particular need of want who might be willing and able to engage in exchange to satisfy that need or want".

Thus the size of the market depends upon the number of persons who exhibit the need, have resources that interest others, and are willing to offer, these resources in exchange for what they want. Originally the term market stood for the place where buyers and sellers gathered to exchange their goods. Economics use the term market to refer to a collection of buyers and sellers who transact over a particular product or product class; hence the housing market, the grain market and so on.

Marketing and Marketers

The concept of markets finally brings us full circle to the concept of marketing. Marketing means working with markets to bring about exchanges for the purpose of satisfying human needs and wants. Thus we return to our definition of marketing as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others.

Elements of the Concept

The marketing concept consists of the following three interrelated parts: -

1. Customer orientation
2. Integrated marketing activities throughout the term and
3. Customer satisfaction

These elements of the marketing concept are explained below:

Customer Orientation

This orientation implies that the firm pays proper attention to customer their needs, values, interests, and tastes. These are to be ascertained, monitored, and

translated into useful products and service. Customer needs, both present and potential, provide the major criteria for managerial decisions on products, their innovation, and development. For that, appropriate marketing information and intelligence systems are to be designed to that timely and accurate information is made available to the management. Market research, consumer research, and market forecasting play an important role in furnishing information on such matters as the size and nature of market, customers performances and buying market, customers performances and buying habits, and other relevant information about the market price.

Integration of marketing with other activities

This is the second important element of the marketing concept, and aims at bringing about a proper coordination between the various constituents of the marketing function (like product, price, promotion, and distribution) and between the marketing function and other functions of the business (namely, manufacturing, inventory control, finance, personnel, and so on). In other words, the entire organization should mould its policies and programs to subserve the basic customer orientation of the organization. Serving the needs of customers should be the concern of the entire organization.

Customer satisfaction

The third important element is “customer satisfaction”. Customer satisfaction is very complex element and is a function of such factors as price, quality, appearance, availability, convenience, after-sales-service, and so on. To satisfy customers, the organization should build up sound traditions of service, courtesy, fair play, efficiency, and should prove to be of genuine value to customers.

Importance of Marketing

The importance of marketing has been recognized ever since the business came into existence. However, it has tremendously enhanced in the present times due to organization of production on a mass scale, rapid technological change, and increasing sophistication of customer tastes and preferences. The importance of marketing exists for the business enterprise, customer, and society. This is described below:

a. Importance of Marketing for a Business Enterprise

(i) **Source of revenue**: For a business enterprise, marketing is the single most important source of revenue generation. All other activities of a business enterprise-be it manufacturing, personnel, accounting, finance, or research and development only consume revenue. If marketing fails to generate sufficient revenues for meeting all expenses and producing profits, the business enterprise will not be able to survive and grow.

(ii) **Foundation of business activities**: Marketing is the most central activity of a business enterprise in as much as those other activities derive their strength from and revolve around this. Production, personnel, financial, research and development, and all other activities are planned on the basis of forecasts of sales. The quantity and quality of production is directly linked with the market requirements as reflected in the sales order. Manpower planning, that determines the quantity and quality of human resources, is based on production, marketing and other organizational activities. One of the major determinants of financial planning, of course, is the marketing activity. Research and development effort is undertaken with a view to increasing the marketing effectiveness of a business enterprise.

b. Importance of Marketing for the Consumer

(i) **Determination of patterns of consumption:** The most significant relevance of marketing lies in its helping in determining patterns of consumption. The modern marketing system is geared towards assessing the needs, values, habits, feeling, and hopes of customers, and this helps in making useful goods available in the market.

(ii) **Satisfaction of needs and desires:** Marketing, by making useful goods and services available, helps customers in satisfying their variegated needs and desires of life.

(iii) **Improvement of standards of living:** Marketing process brings new varieties, quality, and beneficial goods to customer and, thus, helps him in raising his standards of living.

c. Importance of marketing to the society

(i) **Bridges gap between production and consumption:** The marketing process helps bridging the gap between producers and consumers of goods and services strewn all over the country and sometimes even the world. It is everybody’s experience that goods produced, say in Lahore, are available in Kasur, Narowal, Pattoki, Sialkot and other parts of the country, thanks to efficient marketing system.

(ii) **Creation of gainful employment opportunities:** Marketing is a potent source of enormous employment opportunities in the country. It becomes at once evident as we see thousands and lakhs of salespeople, retail shops, hawkers, and vendors in every city. Even in the USA, where a significant part of retailing is organized on a giant scale, approximately one-eight of its population is employed in various marketing activities. This population is obviously much higher in Pakistan where most retailing is organized on a small scale.

(iii) **Improvement in national income:** A nation's income is composed, not of money, but of the goods and services which money can buy. An increase in the efficiency of the marketing process, which results in lower costs of distribution and lower prices to consumers, really brings about an increase in the national income.

(iv) **Stability in price level:** Scientific marketing has a stabilizing effect on the price level. Producers produce what consumers' want and customers have a wide choice of products, and therefore, there are no frequent ups and downs in prices. Scientific marketing is the very anti-thesis of hoarding, profiteering, and black marketing.

Needs, Wants and Demands

The most basic concept underlying marketing is that of human needs. Human needs are states of felt deprivation. They include basic physical needs for food, clothing, warmth, and safety; social needs for belonging and affection; and individual needs for knowledge and self-expression. Marketers do not invent these needs; they are a basic part of the human makeup.

Wants are the form taken by human needs as they are shaped by culture and individual personality. A hungry person in the United States might want a Big Mac, French fries, and a Coke. A hungry person in Bali might want mangoes, suckling pig, and beans. Wants are described in terms of objects that will satisfy needs.

People have almost unlimited wants but limited resources. Thus, they want to choose products that provide the most value and satisfaction for their money. When backed by buying power, wants become demands. Consumers view products as bundles of benefits and choose products that give them the best bundle for their money. A Honda Civic means basic transportation, low price, and fuel economy; a Lexus means comfort, luxury, and status. Given their wants and resources, people demand products with the benefits that add up to the most satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. They conduct consumer research about consumer likes and dislikes. They analyze customer inquiry, warranty, and service data. They observe customers using their own and competing products and train salespeople to be on the lookout for unfulfilled customer needs. Understanding customer needs, wants, and demands in detail provide important input for designing marketing strategies.

In these outstanding companies, people at all levels including top management stay close to customers. For example, top executives from Wal-Mart spend two days each week visiting stores and mingling with customers. At Disney World, at least once in his or her career, each manager spends a day touring the park in a Mickey, Minnie, Goofy, or other character costume. Moreover, all Disney World managers spend a week each year on the front line taking tickets, selling popcorn or loading and unloading rides. At Motorola, top executives routinely visit corporate customers at their offices to gain better insights into their needs. At Marriott, to stay in touch with customers, Chairman of the Board and President Bill Marriott personally reads 10 percent of the 8,000 letters and 2 percent of the 750,000 guest comment cards submitted by customers each year.

Products and Services

People satisfy their needs and want with products and services. A product is anything that can be offered to a market to satisfy a need or want. The concept of product is not limited to physical objects anything capable of satisfying a need can be called a product. In addition to tangible goods, products include services, which are activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services. Broadly defined, products also include other entries such as persons, places, organizations, activities, and ideas. Consumers decide which entertainers to watch on television, which places to visit on vacation, which organization to support through contributions, and which ideas to adopt. To the consumer, these are all products. If at times the term product does not seem to fit, we could substitute other terms such as satisfier, resource, or offer.

Many sellers make the mistake of paying more attention to the specific products they offer than the benefits produced by these products. They see themselves as selling a product rather than providing a solution to a need. The manufacturer of the drill bits may think that the customer needs a drill bit, but what the customer really needs is a hole. These sellers may suffer from "marketing myopia" they are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a product is only a tool to solve a consumer's problem. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer with the same need will want the new product.

Demand Management

Some people think of marketing management as finding enough customers for the company's current output, but this view is too limited. The organization has a desired level of demand for its products. At any point in time, there may be no demand, adequate demand, irregular demand or too much demand, and marketing management must find ways to deal with these different demand states. Marketing management is concerned not only with finding and increasing demand, but also with changing or even reducing it.

For example, the Golden Gate Bridge sometimes carries an unsafe level of traffic, and Yosemite National Park is badly overcrowded in the summer. Power companies sometimes have trouble meeting demand, demarketing, may be required to reduce demand temporarily or permanently. The aim of demarketing is not to destroy demand, but only to reduce or shift it. Thus, marketing management seeks to affect the level, timing, and nature of demand in a way that helps the organization achieve its objectives. Simply put, marketing is demand management.

Customer Relationship

Relationship marketing involves creating, maintaining, and enhancing strong relationships with customers and other stakeholders. Relationship marketing is oriented toward the long term. The goal is to deliver long-term value to customers, and the measure of success is long-term customer satisfaction. Relationship marketing requires that all of the company's departments work together with marketing as a team to serve the customer. It involves building relationships at many levels economic, social, technical, and legal resulting in high customer loyalty.

Companies from different levels of customer relationships depending on the nature of the target market. At one extreme, a company with many low margin customers may seek to develop basic relationship with them. For example Amjad Ali does not phone all of its ketchup buyers to get to know them personally and express its appreciation for their business. Instead, Amjad creates relationships through brand building advertising, sales promotions, and perhaps a customer information service. At the other extreme, in markets with few customers and high margins, seller wants to create full partnership with key customers. Boeing, for example works closely with Pakistan Airlines in designing its airplanes and ensuring that Boeing airplanes fully satisfy Pakistan's requirements. In between these two extreme situations, other levels of relationship marketing are appropriate.

Today, more and more companies are developing customer loyalty and retention programs. Beyond offering consistently high value and satisfaction, marketers can use a number of specific marketing tools to develop stronger bonds with consumers. First, a company might build value and satisfaction by adding financial benefits to the customer relationship. For example, many companies now offer frequency-marketing programs that reward customer who buys frequently or in large amounts. Airlines offer frequent flier programs; hotels give room upgrades to their frequent guests, and supermarkets give patronage refunds.

Consumer Behavior

Understanding consumer behavior is difficult enough for companies marketing within the borders of a single country. For companies operating in many countries, however, understanding and serving the needs of consumers can be daunting. Although consumers in different countries may have some things in common, their values, attitudes, and behaviors often vary greatly. International marketers must understand such differences and adjust their products and marketing programs accordingly.

Sometimes the differences are obvious. For example, in the United States, where most people eat cereal regularly for breakfast, Kellogg focuses its marketing on persuading consumers to select a Kellogg brand rather than a competitor's brand. In France, however, where most people prefer croissants and coffee or no breakfast at all, Kellogg advertising simply attempts to convince people that they should eat cereal for breakfast. Its packaging includes step-by-step instruction on how to prepare cereal. In Pakistan, where many consumers eat heavy, fried breakfasts and 22 percent of consumers skip the meal altogether, Kellogg's advertising attempts to convince buyers to switch to a lighter, more nutritious breakfast diet.

Often, differences across international markets are more subtle. They may result from physical differences in consumers and their environments. For example, Remington makes smaller electric shavers to fit the smaller hands of Japanese consumers; and battery powered shavers for the British market, where few bathrooms have electrical outlets. Other differences result from varying customs. Consider the following examples.

- Shaking your head from side to side means "no" in most countries but "yes" in Bulgaria and Sri Lanka.
- In south America, Southern Europe, and many Arab countries, touching another person is sign of warmth and friendship. In the Orient, it is considered an invasion of privacy.
- In Norway or Malaysia, it's rude to leave something on your plate when eating; in Egypt, it's rude not to leave something on your plate.
- A door-to-door salesperson might find it tough going in Italy, where it is improper for a man to call on a woman if she is home alone.

Failing to understand such differences in customs and behaviors from one country to another can spell disaster for a marketer's international products and programs.

Marketers must decide on the degree to which they will adapt their products and marketing programs to meet the unique cultures and needs of consumers in various markets. On the one hand, they want to standardize their offerings in order to simplify operations and take advantage of cost economies. On the other hand, adapting marketing efforts within each country results in products and programs that better satisfy the needs of local consumers. The question of whether to adapt or standardize the marketing mix across international markets has created a lively debate in recent years.

Cultural Environment

The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preference, and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a world-view that defines their relationships with others. The following cultural characteristics can affect marketing decision-making.

Persistence of Cultural Values
People in a give society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most Pakistanis believe in working, getting married, giving to charity, and being honest. These beliefs shape more specific attitudes and behaviors found in everyday life. Core beliefs and values are passed on from parents to children and are reinforced by schools, churches, business and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values, but little chance of changing core values. For example, family-planning marketers could argue more effectively that people should get married later than that they should not get married at all.

Shifts in Secondary Cultural Values
Although core values are fairly persistent, cultural swings do take place. Consider the impact of popular music group, movie personalities, and other celebrities on young people's hair styling, clothing and sexual norms. Marketers want to predict cultural shifts in order to spot new opportunities or threats. Several firms offer "future" forecasts in this connection. The percentage of people who value physical fitness and well-being has risen steadily over the years. Such information helps marketers cater to trends with appropriate products and communication appeals.

The major cultural values of a society are expressed in people's views of themselves and others, as well as in their views of organizations, society, nature and the universe.

People's views of themselves: People vary in their emphasis on serving themselves versus serving others. Some people seek personal pleasure, wanting fun, change, and escape. Others seek self-realization through religion, recreation, or the avid pursuit of careers or other life goals. People are products, brands, and services as a means of self-expression, and they buy products and services that match their views of themselves.

If the 1980s, personal ambition and materialism increased dramatically, with significant marketing implications. In a “me-society”, people buy their “dream cars” and take their “dream vacations”. They spend more time in outdoor health activities (jogging, tennis), in thought, and on arts and crafts. The leisure industry (camping, boating, arts and crafts, and sports) faces good growth prospects in a society in which people seek self-fulfillment.

People’s views of others: More recently, observers have noted a shift from a “me-society” to a “we-society” in which more people want to be with and serve others. Notes one trend tracker, “people want to get out, especially those 48 million people working out of their home and feeling a little cooped-up (and) all those shut-ins who feel unfulfilled by the cyber-stuff that was supposed to make them feel like never leaving home. Moreover, more sensible spending, saving, family concerns, and helping others are replacing materialism, flashy spending, and self-indulgence. The aging baby boomers are limiting their spending to products and services that improve their lives instead of boosting their images. Thus suggests a bright future for products and services that serve basic needs rather than those relying on glitz and hype. It also suggests a greater demand for “social support” products and services that improve direct communication between people, such as health club and family vacations.

People’s views of organizations: People vary in their attitudes toward corporations, government agencies, trade unions, universities, and other organizations. By the large, people are willing to work for major organizations and expect them, in turn, to carry out society’s work. The late 1980s saw a sharp decrease in confidence in and loyalty toward America’s business and political organizations and institutions. People were giving a little less to their organizations and trusted them less. However, by the mid-1990s, these attitudes appeared to be turning around, with people showing signs of “cautious trust” of institutions.

People’s views of society: People vary in their attitudes toward their society; patriots defend it, reformers want to change it, malcontents want to leave it. People’s orientation to their society influences their consumption patterns, levels of savings, and attitudes toward the marketplace. The 1980s and 1990s have seen an increase in consumer patriotism. For example, one recent study showed that more than 80 percent of those surveyed say “Americans should always try to buy American”, up from 72 percent in 1972. Many U.S companies have responded with “made in America” themes and flag-waving promotions. For example, Black & Decker recently added a flag-like symbol to its tools.

People’s views of nature: People vary in their attitudes toward the natural world. Some feel ruled by it, others feel in harmony with it, and still others seek to master

it. A long-term trend has been people's growing mastery over nature through technology and the belief that nature is bountiful. More recently, however, people have recognized that nature is finite and fragile that it can be destroyed or spoiled by human activities.

Love of nature, is leading to more camping, hiking, boating fishing, and other outdoor activities. Business has responded by offering more products and services catering to these interests. Tour operators are offering more wilderness adventures, and retailers are offering more fitness gear and apparel. Food producers have found growing markets for "natural" products such as natural cereal, natural ice cream, and health foods. Marketing communicators are using appealing natural backgrounds in advertising their products.

People's views of the universe: Finally, people vary in their beliefs about the origin of the universe and their place in it. Although most Americans practice religion, religious conviction and practice have been dropping off gradually though the years. As people lose their religious orientation, they seek goods and experiences with more immediate satisfactions. During the 1980s, people increasingly measured success in terms of career achievements, wealth, and worldly possessions.

Some futurists, however, have noted an emerging renewal of interest in religion and a new spiritualism, perhaps as a part of a broader search for a new inner purpose. People have been moving away from materialism and dog-eat-dog ambition to seek more permanent values family, community, earth, faith and a more certain grasp of right and wrong.

Marketing Mix

Introduction

The marketing mix is one the major concepts in modern marketing. We define MARKETING MIX as the set of controllable tactical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities can be collected into your groups of a variable known the "four Ps": i.e. product, price, place, and promotion. Let us consider these four steps:

Product

Product means "goods and services" combination the company offers to the target market. Thus, a Ford Company consists of nuts and bolts, spark plugs, pistons, headlights, and thousands of other parts. Ford offers several styles and dozen of optional features. The car comes fully serviced and with a comprehensive warranty that is much a part of the product.

Price

Price is the amount of money customers has to pay to obtain the product. Ford calculates suggested retail prices that its dealers might charge for each Taurus. But Ford dealers rarely charge the full sticker price. Instead they negotiate the price with the customer, offering discounts, trade-in allowances, and credit terms to adjust for the current competitive situation and to bring the price into line with the buyer's perception of the Car's value.

Place

Place includes company activities that make the product available to target customers. Ford maintains a large body of independently owned dealerships that sell the company's many different models. Ford selects its dealers carefully and supports them strongly. The dealers keep an inventory of Ford automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.

Promotion

Promotion means activities that communicate the merits of the products and persuade target customers to buy it. Ford spends more than 600 million each year no advertising to tell consumers about the company and its products. Dealership

salespeople assist potential buyers and persuade them that Ford is the best car for them. For and its dealers offer special promotions sales, cash rebates, low financing rates as added purchase incentives.

An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives. The marketing mix constitutes the company's tactical tool kit for establishing strong positioning in target markets. However, note that the four Ps represent the sellers' view of the marketing tools available for influencing buyers. From a consumer viewpoint, each marketing tool is designed to deliver a customer benefit. One marketing expert suggests that companies should view the four Ps in terms of the customer's four Cs:

Four Ps	**Four Cs**
Product	Customer needs and wants
Price	Cost to the customer
Place	Convenience
Promotion	Communication

Thus, wining companies will be those that can meet customer needs economically and conveniently and with effective communication.

What is Product?

A product is anything that can be offered to a market for attention, use or consumption and that might satisfy a want or need; it includes physical objects, service, persons, places, organization and ideas. Product planners need to think about the product on three levels. The most basic level is the CORE PRODUCT, which addresses the question: what is the buyer really buying?

It consists of the problem solving services or core benefits that consumers seek when they buy a product. The product planner must next build an ACTUAL PRODUCT around the core product. Actual products may have as many as five characteristics: quality level, features, design, a brand name, and packaging.

Finally, the product planner must build an AUGMENTED PRODUCT around the core and actual products by offering additional consumer service and benefits. Sony must offer more than a camcorder. It must provide consumers with a complete solution to their picture taking problems. Thus, when consumers buy a Sony Handicam, they receive more than just the camcorder itself. Sony and its dealers must give buyers a warranty on parts and workmanship, free lessons on how to use the camcorder, quick repair services when needed, and a total free

telephone number to call if they have problems or questions. Is the consumer, all of these augmentations become an important part of the total product.

Therefore, a product is more than a simple set of tangible features. In fact some products, such as haircut or a doctor's exam, have no tangible features at all. Consumers tend to see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the core consumer needs the product will satisfy. They must then design the actual product and find ways to augment it in order to create the bundle of benefits that will best satisfy consumers.

Classification of Products

In seeking marketing strategies for individual products and services, marketers have developed several product-classification schemes based on product characteristics. We now examine these schemes and characteristics. Products can be classified into following three groups according to their durability or tangibility.

1. **Non-durable goods** are consumer goods that normally are consumed in one or a few uses, such as soap, drinks and salt.

2. **Durable goods** are consumer goods that are used over an extended period of time and that normally survive many uses. Examples include refrigerators, automobiles and furniture.

3. **Services** are activities, benefits, or satisfactions that are offered for sale, such as home repairs, tuition fee, doctor's fee. Services are essentially intangible and do not result in the ownership of anything.

To design effective marketing programs, organizations need to know what kinds of products they are offering to consumer. Thus it's helpful to separate products into homogeneous categories. First we will divide all products into two following categories:

1. Consumer Goods (Products)
2. Industrial Goods (Products)

Some Important Information

Materials and Parts are industrial goods that enter the manufacturer's product completely, either through further processing or as a components. They fall into two classes: Raw Material and Manufactured Materials and parts.

Raw material includes farm products (wheat, cotton, fruits, vegetable) and natural products (fish, lumber, crude petroleum, iron ore). Farm products are supplied by many small producers who turn them over to marketing intermediaries that process and sell them. Natural products usually have great bulk and low unit value and require a lot of transportation to move them from producer to user. Fewer and larger producers, who tend to market them directly to industrial users, supply them.

Manufactured materials and parts include component materials (iron, yarn, cement, wires) and component parts (small motors, tires, casting). Component materials usually are processed further for example, pig iron is made into steel and yarn is woven in to cloth. Component parts enter the finished product completely with no further change in form, as when small motors are put into vacuum cleaners and tires are added to automobiles. Most manufactured materials and parts are sold directly to industrial users.

Capital Items are industrial goods that partly enter the finished product. They include two groups: Installation and accessory equipment.

Installation consists of buildings (factories, offices) and fixed equipment (generators, drill presses, large computers, elevators). Because installations are major purchases, they usually are bought directly from the producer after a long decision period.

Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (fax machines, desks). These products do not become part of the finished product. They have a shorter life than installations and simply aid in the production process. Most sellers of accessory equipment use middlemen because the market is spread out geographically, the buyers are numerous, and the orders are small.

Supplies and Services are industrial goods that do not enter the finished product at all. Supplies include operating supplies (lubricants, coal, computer paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience goods of the industrial field because they usually are purchased with a minimum of effort or comparison.

Business services include maintenance and repair services (legal, management consulting, advertising). These services are usually supplied under contract, maintenance services often available from the manufactures of the original equipment.

Individual Product Decisions

Product Quality

Product quality stands for the ability of a product to perform its functions. It includes the product's overall durability, reliability, precision, ease of operation and repair, and other valued attributes.

Product Features

A product can be offered with varying features. A "stripped down" model, one without any extras, is the starting point. The company can create higher-level models by adding core features. Features are competitive tools for differentiating the company's product from competitors' products. Being the first producer to introduce a needed and valued new feature is one of the most effective ways to compete. Some companies are very innovative in adding new features.

How can a company identify new features and decide which ones to add to its product? The company should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features could we add to improve the product? How much would you pay for each feature? The answer provides the company with a rich list feature ideas. The company can then assess each feature's customer value versus its company cost. Features that customers value little in relation to costs should be dropped; those that customers value highly in relation to costs should be added.

What is Brand?

A brand is a name, term, sign, symbol, or design, or a combination of these intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Thus, a brand identifies the maker or seller of a product. Brands differ from other assets such as patents, and copyrights, which have expiration dates. Under trademarks law, the seller receives exclusive rights to use a brand name for an unlimited period of time.

A brand is a seller's promise to consistently deliver a specific set of features, benefits, and services to buyers. The best brands convey a warranty of quality.

Packaging

Many products offered to the market have to be packaged. Some marketers have called packaging a fifth P, along with place, price, product, and promotion. Most marketers however, treat packaging as an element of product strategy.

PACKAGING includes the activities of designing and producing the container or wrapper for a product. The package may include the product's immediate container (the bottle holding Old Spice After Shave Lotion); a secondary package that is thrown away when the product is about to be used (the cardboard box containing the bottle of Old Spice); and the shipping package necessary to store, identify, and ship the product (a corrugated box carrying six dozen bottles of Old Spice), Labeling is also part of packaging and consists of printed information appearing on or with the package.

Labeling

Labels may range from simple tags attached to product to compile graphics that are part of the package. They perform several functions, and the seller has to decide which ones to use. At the very least, the label identifies the product or brand, such as the name Surf stamped on Washing Powder. The label might describe several things about the product who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely: Finally, the label might promote the product through attractive graphics.

Product Line: A product line is a set of individual products that are closely related. The seller may see them as related because they are produced and/or operate in a similar way, are sold to the same target market, are sold though the same types of outlets, or are priced at about the same level. For example, General Motors produces several lines of cars, Revlon produced several lines of cosmetics, and IBM produces several lines of computers.

An individual product is a particular product within a product line. It usually is differentiated by brand, level of service offered, price, or some other characteristic. For example, each size of a brand of soap is an individual product.

The Marketing Information System (MIS)

A Marketing Information System (MIS) consists of people, equipment, and procedures to gather, sort, analyze and distribute needed, timely, and accurate information to marketing decision makers. The MIS begins and ends with marketing managers. First, it interacts with these managers to assess their information needs. Next, it develops the needed information from internal company records, marketing intelligence activities, and the marketing research process. Information analysis processes the information to make it more useful. Finally, the MIS distributes information to managers in the right form and at the right time to help them in marketing planning, implementation, and control.

Assessing Information Needs

A good marketing information system balances what the information managers would like to have against what they really need and what is feasible to offer. The company begins by interviewing managers to find out what information they would like. The following is a list of suitable question for assessing marketing information needs: -

Questions for Assessing Marketing Information Needs

1. What types of decisions do you make regularly?
2. What types of information do you need in order to make these decisions?
3. What types of useful information do you get regularly?
4. What types of information would you like to get that you are not getting now?
5. What types of information do you get now that you don’t really need?
6. What information would you want daily? Weekly? Monthly? Yearly?
7. What topics would you like to be kept informed about?
8. What databases would be useful to you?
9. What types of information analysis programs would you like to have?
10. What would be the four most helpful improvements that could be made in the present information system?

Some managers will ask for whatever information they can get without thinking carefully about what they really need. With today’s information technology, most companies can provide much more information than managers can actually use. Too much information can be as harmful as too little.

Other managers may omit things they ought to know. Or managers may not know to ask for some types of information they should have. For example, managers

might need to know that a competitor plans to introduce a new product during the coming year. Because they do not know about the new product, they do not think to ask about it. The MIS must watch the marketing environment and provide decision makers with information they should have to make key marketing decision.

Sometimes the company cannot provide the needed information because it is not available or because of MIS limitations. For example, a brand manager might want to know how much competitors will change their advertising budgets next year and how these changes will affect industry market share. The information on planned budgets is probable not available. Even if it is, the company's MIS may not be advanced enough to forecast resulting changes in market shares.

Finally, the company must decide whether the benefits of having an item of information are worth the costs of providing it, and both value and X cost are often hard to assess. By itself, information has no worth – its value comes from its use. Although methods have been developed for calculating the value of information, decision makers must often rely on subject judgment. Similarly although a company can total use cost of marketing information system or the costs of a marketing research project, figuring the cost of specific information item may be difficult.

The cost of obtaining, processing, storing, and delivering information can amount quickly. In many cases, additional information will do little to change or improve a manager's decision, or the costs of the information may exceed the returns from the improved decision. For example, suppose a company estimates that launching a new product without any further information will yield a profit of Rs. 500,000; the manager believes that additional information will improve the marketing mix and allow the company to make Rs. 525,000. Paying Rs. 30,000 for the extra information will be foolish.

Salesmanship

Definition:

1. **American Marketing Association** says that it is the ability to persuade people to buy goods or services at a profit to the seller and with benefit to the buyer.

2. **Whitehead** says, "It is the art of so presenting an offer that the prospectus appreciate the need for it and that a mutually satisfactory sales follows".

3. **Daniel S. Warner** says, "Salesmanship is a face to face persuasive communication between a seller and a prospective buyer".

Importance of Salesmanship:

The salesmanship is not an idle part of the market. The ever-increasing production and consumption rely on salesmanship. No doubt advertising is a tool to increase sales but that is sales in print. There is direct link with the new customers. But salesmanship is a personal face to face talk with the prospect. The people who have purchasing power and willing to buy the product are the real target of the salesmanship. The customer gains the confidence about the product, price and the company. The basic information about product is provided to the future customer. The demonstration is given and prospect can see the working the product. The objection raised by the customer is handled with care and ultimately order is collected. The follow-up service is necessary to retain the customer. The salesmanship built up the confidence of the customers that product is free from defects. The following few points clear the importance of salesmanship

1. Create Customer:

The salesmanship is able to create the customers. There is increase in the number of buyers. There is a need to find out the people who have money and are willing to buy the products and services. The salesman can come to know about the prospect from friends, relatives, social gathering, fellow salesman, old customers, observations, directories, sales managers, newspapers, investigators and so on. The salesperson after knowing about the new customers tries to collect information about the financial resources of him. He prepares himself to make face link with them. In personal contact he tries to provide information about the products. The demonstration is made. The objections are removed and ultimately an order is received. Now the new person becomes regular customer of the business.

2. Increase Sales

The salesmanship is one of the tools to increase the sales volume. Every business unit can find out the break even sales level. At this point there is no profit and loss. The company can recover the cost of goods. The profit area starts after the break even sales volume. The profit is a success and loss is failure of the sales force. The sales target is fixed every year. The sales force is allowed to achieve the given target of sales. The sales teams can use various ways and means including face to face talk for increasing the level of sales. The efficiency of the sales force is favorable when the sales exceed the estimates. But the sales force is inefficient when the volume is below the budget estimates. The increase in sales depends to a large on salesmanship.

3. Reduce Cost

The sales persons meet directly with these persons who have money and willing to buy the products. The basic information is given to the selected number of people. There is no wastage of time and money. The amount spent on finding and convincing the customer is minimum. The increasing sales volume decreases the per unit cost. There is a tight control over the variable expenses of the sales department. The expenses increase with the increase in sales volume but not at the same rate. The rate of sales increase is more than the rate of expenses. It is the efficiency of the sales manager to keep the expenses within limits. The unit cost decreases with the effective salesmanship.

4. Increase Profit

The profit is the result of successful sales volume at a reasonable price level. The deal between buyer and seller must be made with gain to both the parties. The seller must receive sufficient sale price to cover the cost and normal rate of profit. The buyer must receive the quality product. He must not feel that prices are high. The salesmanship is a tool to increase the number of customers. The increase is possible at competitive prices. A low profit percentage with increasing number of customers is not acceptable in all business units. The future of salesmanship depends upon increasing profit through sales level and customers.

5. Marketing Information

The salespersons directly meet the people who use the products. The complaints relating the working of one product and favorable comments about the other products are the basic ideas about the liking and disliking of the products. The face-to-face talk with the customer provides the information to the company to

design the production methods and distribution channels. The knowledge about the customers, market and competitors becomes the basis of working of the company. The business unit through its sales force can collect correct and reliable information. A true and fair data is used to prepare planning and development programmers for the future. A salesmanship is a useful means of collecting information.

6. Company Image

The salesmanship is useful tool for building up the image of the company. The salesman tells the prospect about the company and its products. The demonstration is made before the customer. He is allowed to operate the products. The customer is informed about after sales service. The repair is made free of cost for some time. The follow-up activities of the salesmanship develop the confidence of the customers about the products under use. The company is careful in selling the products free of any defect. It is a matter of reputation of the company. The satisfaction of customer is necessary for increasing the goodwill of the manufacturers and producers. The face-to-face personal communication by the salesman with the prospect is very effective for winning the favor of the customers.

7. Introduce New Products

The salesmanship can be used to introduce new products. The company can meet target market through salesman in order to reduce wastage the salesman locate the customers. They collect information about their purchasing power. They meet the customer and introduce the qualities of power. They meet the customers and introduce the qualities of product. The demonstration is made before them. The objections are handled tactfully. The customer is satisfied with performance of the product. The order is received for the delivery of new products. The advertising may not be so effective as it may not reach the people who can buy the products. The introduction of new products takes time and the customers are not created in a short time. The salesmanship is perhaps most suitable technique to sell the new products.

8. Guide in Purchases

The salesmen are able to provide latest market information to the management. The competition in the market required to keep the cost of products under control. The purchases must be made at economical rates. The management should know the sources of purchases. The economical purchases are useful for reducing the cost of production. The purchases are competitive rates enables the management to

fight against the competitors. The salesman have direct link with the market forces. They come to know the prices of the competitors and similar other information. The purchase manager to purchase the goods uses the same information. Thus salesmen provide direct and timely information for purchasing the goods in future.

9. After Sale Service

The goods are sold to the customers. The company provides guarantee that the goods will be repaired free of cost for a period from one to five years. The salesmanship is the link between the company and the users of products. The customers do not talk directly with the management. They approach the salesman and dealers to get their goods repaired. The company usually issues the guarantee cards. This help is available to the original buyers of products. The salesman and management can know about the performance of their products. The defects are removed and workers gain experience to remove the defects in the new production. The salesman uses this service as a tool to increase the volume of sales.

10. Employment

The salesmen are in a position to increase the volume of sales beyond the breakeven point. This is the sales volume where there is no profit or loss. Above this point there is profit area. When the working of the company is above this point there is possibility of expansion. The increase in the size of the marketing activities leads towards more employment. The salesmanship makes regular effort in increasing sales level. The establishment of new business units also requires the services of various types of employees. In this way the business sector meets its social responsibility. The salesmen get employment for making sales. They help the company and company helps them. They are essential for each other and employment is the result of their cooperation.

11. Living Standard

The salesmanship is responsible for raising the living standard. The increase in purchasing power increases the demand for goods. The producers and manufacturers meet the demand for goods by increasing product. There is increase in employment level. The per capital income goes up. The people like to spend comfortable life. They spend their money on cars, television, air conditions refrigerators and other facilities. The people working as salesmen also spend life due to employment and promotions. The living standard divides the people into three categories: rich, middle income and the poor. The national income of a

country is divided by the total population to find out the per capital income, which place the people in different groups.

12. Flexible Sales Presentation

The salesmanship is responsible for increasing the sales. They work of a salesman does not come to an end with the sales. They keep link with the old customers. They go on presenting goods to the prospects throughout the year. They cannot stop their work after achieving the sales target. It is a regular effort on the part of the salesman to remain in the market. The people may be convinced to buy the product or they can put off their purchase program on some other day. It is in the interest of the company to persuade the prospects until they become the customers. Therefore, the rigid targets are not fixed but sales program is flexible

Qualities of Good Salesman

1. Knowledge
2. Attitude
3. Determination
4. Health
5. Creativity
6. Initiative
7. Appearance
8. Tactful
9. Humor
10. Communications
11. Confidence
12. Enthusiasm
13. Liking
14. Empathy
15. Honesty
16. Poise
17. Courage
18. Cooperation
19. Hard Work
20. Courtesy

Sales Promotion Tools

Many tools can be used to accomplish sales promotion objectives. The promotion planner should consider the type of market, the sales promotion objectives, the competition, and the costs and effectiveness of each tool. The main consumer and trade promotion tools are described below.

1. **Samples** are offer of a trial amount of a product. Some samples are free for others; the company charges a small amount of offset its cost. The sample might be delivered door to door, sent in the mail, handed out in a store, attached to another product, or featured in an ad. Sampling is the most effective but most expensive way to introduce a new product. For example, Lever Brothers had so much confidence in its new Surf detergent that is spent $43 million to distribute free samples to four of every five American households.

2. **Coupons** are certificates that give buyers a saving when they purchase specified products. More than 263 billion coupons are distributed in the US each year, with a total face value of more than $65 billion. Consumers redeem about 10.5 billion of these coupons, saving almost $4.5 million on their shopping bills. Coupons can be mailed, included with other products, or placed in ads. Several package goods companies are experimenting with point of sale coupon dispensing machines and computerized printers that automatically print coupons at the cash register when certain products pass over the scanner. Coupons can stimulate of a nature brand and promote early trial of a new brand.

3. **Cash refund offer (or rebates)** are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The consumer sends a “proof of purchase” to the manufacturer who then “refunds” part of the purchase price by mail. Toro ran a clever preseason promotion on certain of its snow blower models, offering a rebate if the snowfall in the buyer’s market area turned out below average. Competitors were not able to match this offer on such short notice, and the promotion wave very successful. On the other hand, automobile rebates have become so common in the automotive industry that many car buyers postpone purchasing until a rebate is announced. Because most auto companies match each other’s rebates, each company gains little. The money could be better spent on advertising to build stronger brand images.

4. **Price Packs** (also called cents-off deals) offer consumers savings off the regular price of a product. The producer directly on label or package marks the reduced prices. Price packs can be single packages sold at a reduced price (such as low for the price of one), of two related products banded together (such as a

toothbrush and toothpaste). Price packs are very effective even more so than coupons in stimulating short-term sales.

5. **Premiums** are goods offered either free or at low cost as an incentive to buy a product. In its “Treasure Hunt” promotion, for example, Quaker Oats inserted $5 million of gold and silver coins in Ken-I Ration dog food packages. In its recent premium promotion, Cutty Sark scoth offered a brass tray with the purchase of one bottle of Cutty and a desk lamp with the purchase of two. A premium may come inside (in pack) or outside (on pack) the package. The package itself, if reusable (such as a decorative tin), may serve as a premium. Premiums are sometimes mailed to consumers who have sent in a proof of purchase, such as a box top. A self-liquidating premium is a premium sold below its normal retail price to consumers who request it. For example, manufacturers now offer consumers all kinds of premiums bearing the company’s name. Royal fans can order T-shirts, hot air balloons, and hundreds of other items with Royal’s name on them at unusually low prices.

6. **Advertising Specialties** are useful articles imprinted with an advertiser’s name given as gifts to consumers. Typical items include pens, calendars, key rings, matches, shopping bags, t-shirts, caps, and coffee mugs, US companies spend more than $4 billion each year on advertising specialties. Such items can be very effective. In a resent study, 63 percent of all consumers surveyed were either carrying or wearing an ad specialty item. More than three quarters of those who had an item could recall the advertiser’s name or message before showing the item to the interviewer.

7. **Patronage rewards** are cash or other awards for the regular use of the certain company’s products or services. For example, airlines offer frequent flyer plans, awarding points for miles traveled that can be turned in for free airline trips. Marriott Hotels has adopted an “honored guest” plan that awards points for users of their hotels. Baskin-Robbins offers frequent purchase awards for every ten purchases; customers receive a free quart of ice cream. Polaroid and Pan Am jointly offer a “Reequent Smilaeage Program”. When members buy eligible Polaroid products, they earn points which can be used to earn free tickets on Pan Am. Trading stamps are also patronage rewards in that customers receive stamps when buying from certain merchants and can redeem them for either goods at redemption centers or through mail order catalogs.

8. Point of purchase (POP) promotions include displays and demonstrations that take place at the point of sale. An example is a five feet high cardboard display of Cap’n Crunch next to Cap’n Crunch cereal boxes. Unfortunately, many retailers do not like to handle the hundreds of displays, signs, and posters they receive from manufacturers each year. Manufacturers have thus responded by

offering better POP materials, tying them in with television or print messages and offering to set them up. A good example is the award winning PEPSI "tipping can" display. Form an ordinary display of PEPSI six packs along a supermarket aisle, a mechanically rigged six pack begins to tip forward, grabbing the attention of passing shoppers who think the six pack is falling. A sign reminds shoppers, "Don't forget the PEPSI!" in test market stores, the display helped get more trade support and greatly increased PEPSI sales.

9. Contest, sweep tasks, and games give consumers the change to win something cash, trips, or goods by luck or through extra effort. A contest calls for consumers to submit an entry a jingle, guess, suggestion to be judged by a panel that will select the best entries. A sweepstakes calls for consumers to submit their names for a drawing. A game presents consumers with something every time they buy bingo numbers; missing letters that may or may not help them win a prize. A sales contest urges dealers or the sales force to increase their efforts, with prize going to the top performers.

Promotion

Sales promotions are those activities that stimulate customers demand and improve the dealers' performance. It is different from personal selling, advertising and publicity. Sales promotion is not carried out for the whole year. It is done after certain periods. The purpose of sales promotion may be introduction of new brand of goods, stimulating customers demand, fighting competition, gaining favorable opinion from general public dealers participation, bulk buying and training of middlemen. There is a need of shows, exhibition, displays and demonstration for promoting the sales. The businessmen use various methods in sales promotion. The sales promotion activities have become a fashion due to large sale production and ever increasing competition in a free market economy. Division of labor and specialization has made it possible to hire the services of experts in the field of sales promotion. The sales promotion activities provide quick results. The brand name is also one of the reasons for sales promotion. The large-scale retailers have developed pressure on the companies for allowance. The low business activities lead towards the idea of some sort of concession from the sellers. Business is a war and the competitors play their role in this war through sales promotion as well. It is perhaps the powerful tool to clear stocks in order to improve the liquidity position during the year. Thus sales promotion is technique to increase the volume of sales by providing incentive to employees, dealers, customers and users of goods, services and ideas.

The Nature of Each Promotion Tool

Each promotion advertising, personal selling, sales promotion, and public relations has unique characteristics and costs. Marketers must understand these characteristics in order to correctly select their tools.

a. Advertising

Because of the many forms and uses of advertising generalizing its unique qualities as a part of the promotion mix is difficult. Yet several qualities can be noted. Advertising's public nature suggests that the advertised product is standard and legitimate. Because many people see ads for the product, buyers know that purchasing the product will be publicity understood and accepted. Advertising also lets the seller repeat a message many times, and this lets the buyer receive and compare the messages of various competitors. Large scale advertising by a seller says something positive about the seller's size, popularity and success.

Advertising is also very expressive, letting the company dramatize its products through the artful use of print, sound, and color. On the one hand, advertising can

be used to build up a long-term image for a product and, on the other, to trigger quick sales. Advertising can reach masses of geographically spread out buyers at a low cost per exposure.

Advertising also has some shortcomings. Although it reaches many people quickly, advertising is impersonal and cannot be as persuasive as a company salesperson. Advertising is able to carry on only a one-way communication with the audience and the audience does not feel that it has to pay attention or respond. In addition, advertising can be very costly. Although some forms, such as newspaper and radio advertising, can be done on small budget, other forms, such as network TV advertising, require very large budgets.

b. Personal Selling

Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers' preferences, convictions, and actions. As compared with advertising, personal selling has several unique qualities. If involves personal interaction between two or more people, so each person can observe the other's needs and characteristics and make quick adjustments. The effective salesperson keeps the customers interests at heart in order to build a long run relationship. Finally, with personal selling the buyer usually feels a greater need to listen and respond, even if he response is a polite "no thank you".

c. Sales Promotion

Sales promotion includes a wide assortment of tools coupons, contracts, discount deals, premiums, and other and these tools have many unique qualities. They attract consumer attention and provide information that may lead the consumer to buy the product. They offer strong incentives to purchase by providing inducements or contributing that give additional value to consumers. And sales promotion invites and reward quick response. Advertising says "buy our product", Sales Promotion says "buy it now".

Companies use sales promotion tools to create a stronger and quicker response. Sales promotion can be used to drainatize product offers and to boost sagging sales. Sales promotion effects are usually short lived, however, and are not effective in building long run preference.

d. Public Relations

Public relations offer several advantages. One is a believability news story, features, and events seem more real and believable to readers than do ads. Public relations can reach many prospects that avoid salespeople and advertisements; the

message gets to the buyers as “news” rather than as a sales directed communication. And like advertising public relations can dramatize a company or product.

Marketers tend to under use public relations or use it as an afterthought. Yet a well thought out public relations campaign used with other promotion mix elements can be very effective and economical.

Factors In Setting The Promotion Mix

Companies consider many factors when developing their promotion mixes, including the following; type of product and market; “push versus pull” strategy; buyer readiness state; and product life cycle stage.

a. Type of Product and Market

The importance of different promotion tools varies between consumer and industrial markets. Consumer goods companies usually spend more on advertising, less on sales promotion, followed by personal selling, and then public relations. Industrial goods companies spend more on personal selling, followed by sales promotion, advertising, and public goods and in markets with fewer and larger sellers.

Although advertising is less important than sales calls in industrial markets, it still plays an important role. Advertising can build product awareness and knowledge, develop sales leads, and reassure buyers. Similarly, personal selling can add greatly to consumer goods marketing efforts. It is simply not the case that “salespeople put products on shelves and advertising takes them off”. Well trained consumer goods salespeople can sign up more dealers to carry a particular brand, convince them to give the brand more shelf space, and urge them to use special displays and promotions.

b. Push Versus Pull Strategy

The promotional mix is heavily affected by whether the company chooses a push or pull strategy. The two strategies are contrasted in figure below. A push strategy involves pushing the product through distribution channels to final consumers. The manufacturer directs its marketing activities (primarily personal selling and trade promotion) at channel members to induce them to order and carry the product and promotes it to final consumers. Using a pull strategy, the manufacturer directs its marketing activities (primarily advertising and consumer promotion) toward final consumers to induce them to buy the product. If the strategy is effective, consumers will them demand the product from channel

members, who will in turn demand it from producers. Thus, under a pull strategy, consumer demand "pulls" the product through the channels. Industrial goods companies' use only push strategies; some direct marketing companies use only pull. Most large companies use some combination of both.

For example, Procter & Gamble uses mass media advertising to pull its products and a large sales-force and trade promotions to push its products through the channels. In recent years, consumer goods companies have been decreasing the pull portions of their promotion mixes in favor of more push.

Buyer Readiness State

Promotional tools vary in their effects at the different stages of buyer readiness. Advertising, along with public relations, plays the major role in the awareness and knowledge stages, more important than that played by "cold calls" from salespeople. Customer liking, preference, and conviction are more affected by personal selling, which is closely followed by advertising. Finally, closing the sale is mostly done with sales with sales calls and sales promotion. Clearly, personal selling, given its high costs, should focus on the later stages of the customer buying process.

Product Life Cycle Stage

In the introduction stage, advertising and public relations are good for producing high awareness, and sales promotion is useful in promoting early trial. Personal selling must be used to get the trade to carry the product. In the growth stage, advertising and public relations continue to be powerful, while promotion can be reduced because fewer incentives are needed. In the mature stage, sales promotion again becomes important relative to advertising. Buyers know the brands, and advertising is needed only to remind them of the product. In the decline stage, advertising is kept at a reminder level, a relation is dropped, and sale people give the product only a little attention. Sales promotion however might continue strong.

Channels of Distribution

Marketing channels decisions are among the most important facing management. A company's channel decisions directly affect every other marketing decisions directly affect every other marketing decision. The company's pricing depends on whether it uses mass merchandisers or high quality specialty stores. The firm's sales-force and advertising decisions depend upon how much persuasion, training,

and motivation the dealers need. Whether a company develops or acquires certain new products may depend on how well those products fit the abilities of its channel members.

However, companies often pay too little attention to their distribution channels, sometimes with damaging results. For example, automobile manufacturers have lost large shares of their parts and service business to companies like Goodyear, and others because they have resisted making needed changes in their dealer franchise networks. On the other hand, many companies have used imaginative distribution systems to gain a competitive advantage. TCS's creative and imposing; distribution system made it the leader in small package delivery industry. And General Hospital Supply gained a strong advantage over its competition by linking its distribution system directly to hospitals through a sophisticated data processing system.

Distribution channel decisions often involve long term commitments to other firms. A furniture manufacturer can easily change its advertising, prices, or promotion programs. It can scrap old product design and introduce new ones as market tastes demand. But when it sets up a distribution channel through contracts with independent dealers, it cannot readily replace this channel with company owned branches of conditions change. Therefore, management must design its channels carefully, with an eye on tomorrow's likely selling environment as well as today's most producers use middlemen to bring their products to market. They try to forge a distribution channel. A distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or industrial user.

Why Are Middleman Used?

Why do producers give some of the selling job to middlemen? Doing so means giving up some control over how and to whom the products are sold. But producers gain certain advantages from using middlemen. These advantages are described below.

a. Lack of financial resources

Many producers lack the financial resources to carry out direct marketing. For example, General Motors sells its automobiles through thousands of independent franchise dealers. Even General Motors would be hard pressed to raise the cash to buy out its dealers.

b. Mass Distribution Economics

Direct marketing would require many producers to become middleman for the products of other producers in order to achieve mass distribution economics. For example, the Wrigley Company would not find it practical to set up small retail gum shops around the country or to sell gum door to door or by mail order. It would have to sell gum along with many other small products and would end up in the drugstore and food store business. Wrigley finds it easier to work through a network of privately owned distributors.

c. Difference of Profit Margin

Even producers who can afford to set up their own channels can often earn a greater return by increasing their investment in their main business. If a company earns a 20 percent rate of return on manufacturing and foresees only a 10 percent return on retailing, it will not want to do its own retailing.

d. Comparative Advantage

The use of middlemen largely boils down to their greater efficiency in making goods available to target markets. Through their contracts, experience, specialization, and scale of operation, middlemen usually offer the firm more than it can achieve on its own.

e. Matching Supply & Demand

From the economic system's point of view, the role of middlemen is to transform the assortment of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities. But consumers want broad assortments of products in small quantities. In the distribution channels, middlemen buy the large quantities of many producers and break them down into the smaller quantities and broader assortments wanted by consumers. Thus, middlemen play an important role in matching supply and demand.

Distribution Channel Functions

A distribution channel moves goods form producers to consumers. It overcomes the major time, place, and possession gaps that separate goods and services form those who would use them. Members of the marketing channel perform many key functions

- **Information** – gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.
- **Promotion** – developing and spreading persuasive communications about an offer.
- **Contact** – finding and communicating with prospective buyers.
- **Matching** – shaping and fitting the offer to the buyer's needs, including such activities as manufacturing, grading, assembling, and packaging.
- **Negotiation** – reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.
- **Physical distribution** – transporting and storing goods.
- **Financing** – acquiring and using funds to cover the costs of the channel work.
- **Risk taking** – assuming the risks of carrying out the channel work.

The first five functions help to complete transactions; the last three help fulfill the completed transaction.

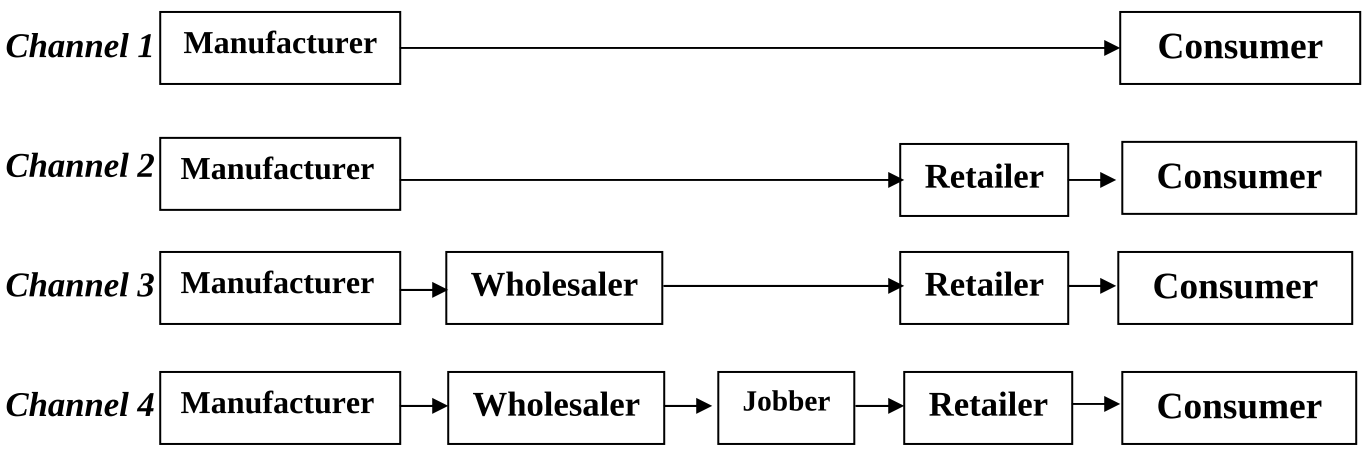
The question is not whether these functions needed to be performed – they must be – but rather who is to perform them. All the functions have three things in common – they use up scare resources, they can often be performed better through specialization, and they can be shifted among channel members. To the extent that the manufacturer performs them, it costs go up and its prices have to be higher. At the same time, when some functions are shifted to middlemen, the producer's costs and prices and lower, but the middle-area must add a charge to cover their work. In dividing the work of the channel, the various functions should be assigned to the channel members who can perform them most efficiently and effectively to provide satisfactory assortments of goods to target consumers.

Number of Channel Levels

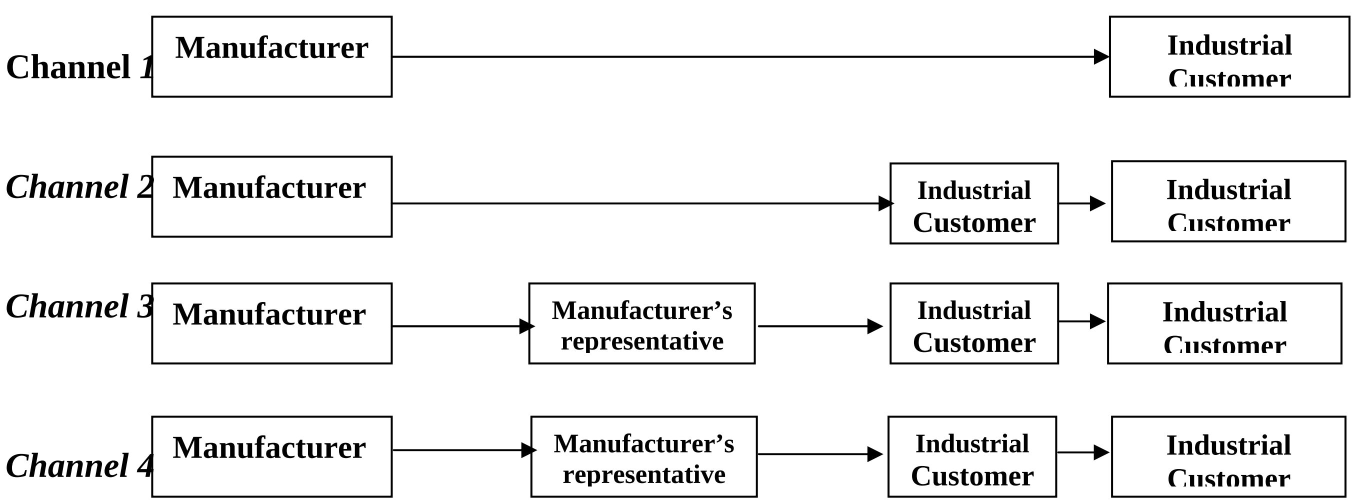
The number of channel levels can describe distribution channels. Each layer of middlemen that perform some work in bringing the product and its ownership closer to the final layer is a channel level. Because the producer and the final

consumer both perform some work, they are part of every channel. We use the number of intermediary levels to indicate the length of a channel.

Channel 1, called a direct marketing channel, has no intermediary level; it consists of a manufacturer selling directly to consumer. For example, Avon and World Book Encyclopedia sell their products door-to-door, Franklin Mint sells collectibles through mail order; Singer sells its sewing machines through its own stores. Channel 2 contains one middlemen level. In consumer markets, this level is typically a retailer. For example, large retailers such as Sears and K mart sell televisions, cameras, tires, furniture, major appliances, and many other products that they buy directly from manufacturers. Channel 3 contains two middlemen levels. In consumer markets, these levels are typically a wholesaler and a retailer. This channel is often used by small manufacturers afford, drug, hardware; and other products.



A. Customer Marketing Channels



B. Industrial Marketing Channels

Channel 4 contains three middlemen levels. In the meatpacking industry for example, jobbers usually come between wholesalers and retailers. The jobber buys from wholesalers and sells to smaller retailers who are not generally served by larger wholesalers. Distribution channels with more levels are sometimes found, but less often. From the producer's point of view, a greater the number of levels means less control. And, of course, the more levels, the great, the channel's complexity.

The industrial goods producer can use its own sales-force to sell directly to industrial customers. It can also sell to industrial distributors who in turn sell to industrial customers. It can sell through manufacturer's representatives or its own sales branches to industrial customers, or use them to sell through industrial distributors. Thus zero, one, and two level distribution channels are common in industrial good markets. Several types of flows connect all of the institutions in the channel. These include the physical flow of products, the flow of ownership, payment flow, information flow, and promotion flow. These flows can make even channels with only one or a few levels very complex.

Advertising

We define as any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. The spenders included not only business firms, but museums, professionals, and social organizations that advertise their causes to various target publics. In fact, the thirty sixth largest advertising spenders is nonprofit organization the government.

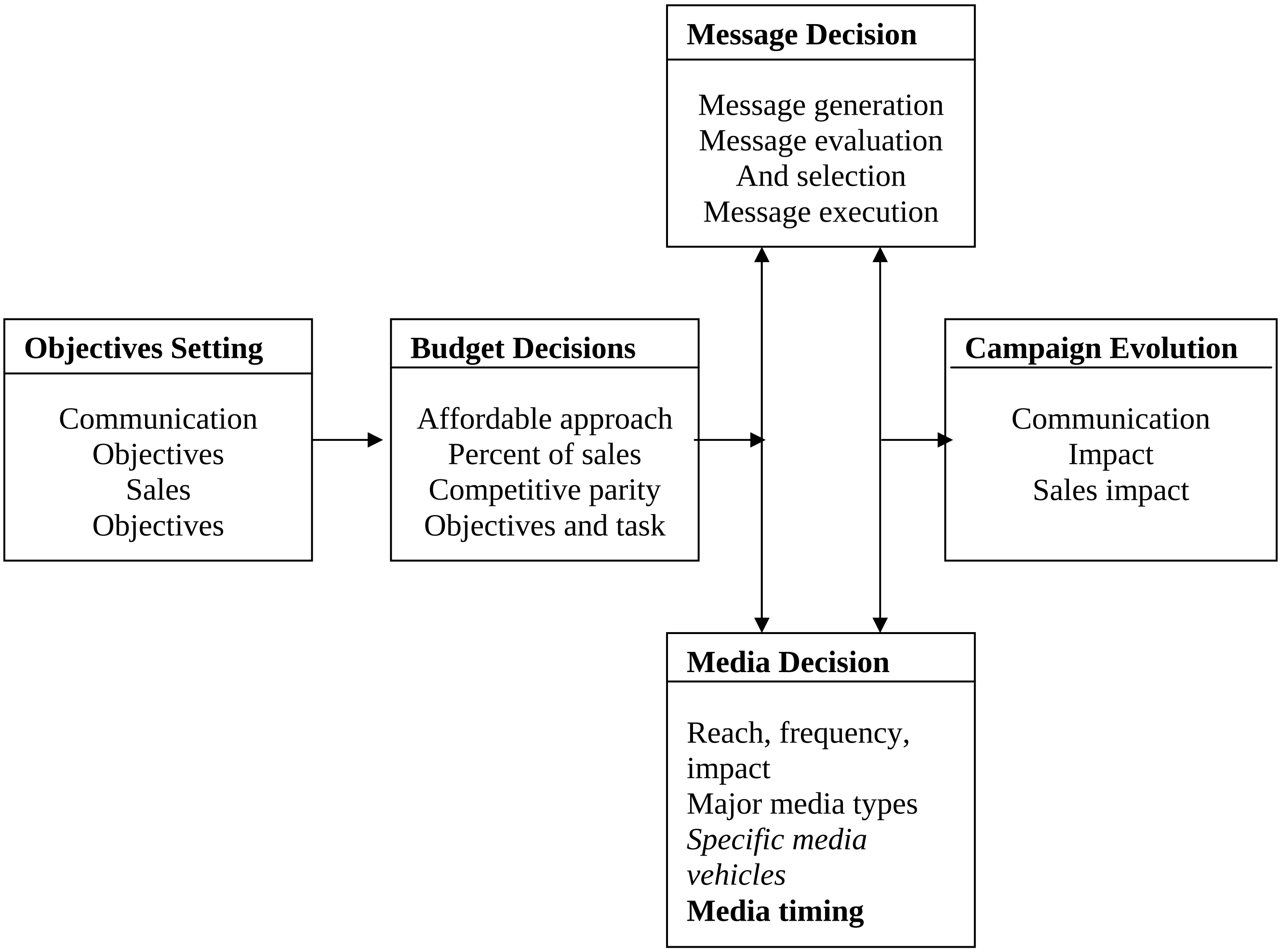
The roots of advertising can be traced to early history. Although advertising is mostly used by private enterprise, it is employed in all the countries of the world, including socialists' countries. Advertising is a good way to inform and persuade, whether the purpose is to sell Coca-Cola worldwide or to get consumers in a developing nation to drink milk or use birth control.

Organizations handle advertising in different ways. In small companies, someone in the sales department might handle advertising. Large companies set up advertising departments whose job is to set the advertising budget, work with the ad agency, and handle direct mail advertising, dealer displays, and other advertising not done by the agency. Most large companies use outside advertising agencies because they offer several advantages.

1. Setting Objectives:

The first step in developing an advertisement program is to set advertising objectives. The objectives should be based on past decisions about the target market, positioning, and marketing mix. The marketing positioning and mix strategy defines the job that advertising must do in the total marketing program. Many communication and sales objectives can be set for advertising. Colley lists fifty-two possible advertising objectives in his well-known Defining Advertising Goals for Measured Advertising Results. He outlines a method called DAGMAR for turning advertising objectives into specific measurable goals.

Major Decisions in Advertising



An advertising objective is a specific communication task to be accomplished with a specific target audience during a specific period of time. Advertising objectives can be classified by purpose, whether their aim is to inform, persuade, or remind. Informative advertising is used heavily when introducing a new product category, when the objective is to build primary demand. Thus, producers of compact disks players first informed consumers of the sound and convenience benefits of CDs. Persuasive advertising becomes more important as competition increases and a company's objective is to build selective demand. For example, when compact disks players become established and accepted, Sony began trying to persuade consumers that its brand offers the best quality for their money.

Some persuasive advertising has become comparison advertising, which compares one brand directly or indirectly with one or more other brands. For example, in its classic comparison campaign, Avis positioned itself against market leading Hertz by claiming, "we're number two, so try harder". Procter & Gamble positioned Scope against Listerine, claiming that minty-fresh Scope "fights bad breath and

doesn't give medicine breath". Comparison advertising has also been used for such products as soft drinks, computers, deodorants, toothpastes, automobiles and pain relievers. Reminder advertising is important for mature products it keeps consumers thinking the product. Expensive Coca-Cola ads on television are designed to remind people about Coca-Cola not to inform or persuade them.

Selecting Advertising Media

The advisor next chooses advertising media to carry the message. The major steps in media selection are (1) deciding on reach, frequency, and impact; (2) choosing among major media types; (3) selecting specific media vehicles; and (4) deciding on media timing.

1. Deciding on Reach, Frequency, and Impact:

To select media, the advertiser must determine the reach and frequency necessary to achieve advertising objectives. Reach is a measure of the percentage of people in the target market who are exposed to the ad campaign during the first three months. Frequency is a measure of how many times the average person in the target market is exposed to the message. For example, the advertiser might want an average exposure frequency of three. The advertiser must also decide on media impact the qualitative value of a message exposure through a given medium. For example, for products that need to be demonstrated, messages on television may have more impact than messages on radio because television uses sight and sound. The same message in one magazine (say, Newsweek) may be more believable than in another.

Suppose the advertiser's product might appeal to a market of one million consumers. The goal is to reach 700,000 consumers (70 percent of 1,000,000). Because the average consumer will receive three exposures, 2,100,000 exposures (700,999X3) must be bought. If the advertiser wants exposures of 1.5 impact (assuming 1.0 impact is the average), a rated number of exposures of 3,150,000 (2,100,000 x 1.5) must be bought. If a thousand exposures with this impact cost $10, the advertising budget will have to be $31,500 (3,150 x $10). In general, the more reach, frequency, and impact the advertiser seeks, the higher the advertising budget will have to be.

2. Choosing Among Major Media Types

The media planner has to know the reach, frequency, and impact of each of the major media types. The major media types, in order of their advertising volume, are newspapers, television, direct mail, radio, magazines, and outdoor. Each medium has advantages and limitations.

Media planners consider many factors when making their choices. The media habits of target consumers will affect media choice for example, radio and television are the best media for reaching teenagers. So will be nature of the product dresses are best shown in color magazines, and Polarad cameras are best demonstrated on television. Different types of messages may require different media. A message announcing a major sale tomorrow will require radio or newspapers; a message with a lot of technical data might require magazines or direct mailings. Cost is also a major factor in media choice. While television is very expensive, newspaper advertising cross much less. The media planner looks at both total cost of using a medium and at the cost per thousand exposures the cost of reaching 1000 people using the medium.

Ideas about media impact and cost must be reexamined regularly. For a long time, television and magazines dominated in the media mixes of national advertisers, with other media often neglected. Recently, however, the costs and clutter of these media have gone up, audiences have dropped, and marketers are adopting strategies beamed at narrower segments. As a result, TV and magazine advertising revenues have leveled off or declined. Advertisers are increasingly turning to alternative media, ranging from cable TV and outdoor advertising to parking meters and shopping carts.

Given these other media characteristics the media planner must decide how much of each media type to buy. For example, in launching its new biscuit, Pillsbury might decide to spend $3 million on daytime network television, $2 million on women's magazines, and $1 million on daily newspapers in 20 major markets.

3. Selecting Specific Media Vehicles:

The media planner must now choose the best media vehicles specific media within each general media types. If advertising is placed in magazines, the media planner must look up circulation figures and the costs of different ad sizes, color options, ad positions, and frequencies for various specific magazines. The planner then evaluates each magazine on such factors as credibility, status, reproduction quality, editorial focus, and advertising submission deadlines. The media planner decides which vehicles give the best reach, frequency and impact for the money.

Advertising Evaluation

The advertising program should regularly evaluate the communication effects and sales effects of advertising.

1. Measuring the Communication Effect

Measuring the communication effect tells whether an ad is communicating well, called copy testing. It can be done before or after an ad is printed or broadcast. There are three major methods of advertising pre-testing. The first is through direct rating, in which the advertisers exposes a consumer panel to alternative ads and ask them to rate the ads. These direct ratings indicate how well the ads get attention and how they affect consumers. Although an imperfect measure of an ad's actual impact a high rating indicates a potentially more effective ad. In portfolio tests, consumers view or listen to a portfolio of advertisements, taking as much time as they need. They then are asked to recall all the ads and their content, aided or unaided by the interviewer. Their recall level indicates the ability of an ad to stand out and its message to be understood and remembered. Laboratory tests use equipment to measures consumers physiological reactions to an ad heartbeat, blood pressure, pupil dilation, perspiration. These tests measure an ad's attention getting power but reveal little about its impact on beliefs, attitudes, or intentions.

There are two popular methods of post-testing ads. Using recall tests, the advertiser asks people who have been exposed to magazines or television programs to recall everything they can about the advertisers and products they saw. Recall scores indicate the ad's power to be noticed and retained. In recognition tests, the researcher asks readers of a given issue of, say a magazine to point out what they recognize as having seen before. Recognition scores can be used to assess the ad's impact in different market segments and to compare the company's ads with competitors' ads.

2. Measuring the Sales Effect

What sales are caused by an ad that increases brand awareness by 20 percent and brand preference by 10 percent? The sales effect of advertising is often harder to measure than the communication effect. Sales are affected by many factors besides advertising such as product features, price, and availability.

One way to measure the sales effect of advertising is to compare past sales with past advertising expenditures. Another way is through experiments. Du Pont was one of the first companies to use advertising experiments. Du Pont's paint department divided 56 sales territories into high, average, and low market share territories. In one-third of the group, Du Pont spent he normal amount for advertising; in another third, the company spent two and one-half times the normal amount; and in the remaining third, it allotted four times the normal amount. At the end of the experiment, Du Pont estimated how many extra sales higher levels of advertising expenditure had created. It found that higher advertising spending

increased sales at a diminishing rate and that the sales increase was weaker in its high market share territories.

To spend a large advertising budget wisely, advertisers must define their advertising objectives, make careful budget, message, and media decisions, and evaluate the results. Advertising also draws much public attention, because of its power to affect life styles and opinions. Advertising faces increased regulation to ensure that it performs responsibly.

Principles of Personal Selling

We now turn from designing and managing a sales force to the actual personal selling process. Personal selling is an ancient art. It has spawned a large literature and many principles. Effective salespeople operate on more than just instinct – they are highly trained in methods of territory analysis and customer management.

1. The Personal Selling Process

Companies spend hundreds of millions of dollars on seminars, books, cassettes, and other materials to teach salespeople the "art" of selling. Millions of copies of books on selling are purchased every year, with such tantalizing titles as How to Sell Anything to Anybody, How I Raised Myself from Failure to Success in Selling, The Four-Minute Sell, The Best Seller, The Power of Enthusiastic Selling, Where Do You Go from No. 1 ? and Winning Through intimidation. One of the most enduring books on selling is Dale Carnegie's How to Win Friends and Influence People.

All of the training approaches try to convert a salesperson from a passive order taker to an active order getter. Order takers assume that customers know their own needs, that they would resent any attempt at influence, and that they prefer salespeople who are polite and reserved. An example of an order taker is a salesperson that calls on a dozen customers each day, simply asking if the customer needs anything.

There are two approaches to training salespeople to be order getters a sales-oriented approach and a customer oriented approach. The sales-oriented approach trains the salesperson in high-pressure selling techniques, such as those used in selling encyclopedias or automobiles. This form of selling assumes that the customers will not buy except under pressure, that they are influenced by a slick presentation, and that they will not be sorry after signing the order (and that, if they are, it no longer matters).

2. Steps in the Selling Process

Most training programs view the selling process as consisting of several steps that the salesperson must master.

i. Prospecting and Qualifying

The first step in the selling process is prospecting, identifying qualified potential customers. The sales person must approach many prospects to get a few sales. In the insurance industry, only one out of nine prospects become a customer. In the computer business, 125 phone calls result in 25 interviews leading to 5 demonstrations and 1 sale.

Although the company supplies some leads, salespeople need skill in finding their own. They can ask current customers for the names of prospects. They can build referral sources, such suppliers, dealers, non-competing salespeople, and bankers. They can join organizations to which prospects belong or can engage in speaking and writing activities that will draw attention. They can search for names in newspapers or directories and use the telephone and mail to track down leads. Or they can drop in unannounced on various offices (a practice known as cold calling). Salespeople need to know how to qualify leads that is, how to identify the good ones and screen the poor ones. Prospects can qualified by looking at their financial ability, volume of business, special needs, location, possibilities for growth.

ii. Pre-approach

Before calling on a prospect, the salesperson should learn as much as possible about the organization (what it needs, who is involved in the buying) and it buyers (their characteristics and buying styles). This step is known as the pre-approach. The salesperson can consult standard sources, acquaintances, and others to learn about the company. The salesperson should set call objectives, which may be either to qualify the prospect, to gather information, or to make an immediate sale. Another task is to decide on the best approach, which might be a personal visit, a phone call, or a letter. The best timing should be thought out because many prospects are busiest at certain times. Finally, the salesperson should give thought to an overall sales strategy for the account.

iii. Approach

During the approach step, the salesperson should know to meet and greet the buyer and to get the relationship off to a good start. This step involves the salesperson’s appearance, opening lines, and the follow-up marks. The opening lines should be positive. This opening might be followed by some key questions to learn more about the customer’s needs or the showing of a display or sample to attract the buyer’s attention and curiosity.

iv. Presentation and Demonstration

During the presentation step of the selling process, the salesperson tells the product "story" to the buyer, showing how the product will make or save money. The salesperson describes the product features but concentrates on presenting customer benefits. Companies use three styles of sales presentation. The oldest is the canned approach, which consists of a memorized or scripted talk covering the seller's main points. This approach has limited usefulness in industrial selling, but scripted presentations can be effective in some telephone selling situations. A properly prepared and rehearsed script should sound natural and move the salesperson smoothly through the presentation. With electronic scripting, computers can lead the salesperson through a sequence of selling messages tailored on the spot to the prospect's responses.

Using the formula approach, the salesperson first identifies the buyer's needs, attitudes, and buying style. Then the salesperson moves into a formula presentation that shows how the product will satisfy that buyer's needs. Although not canned, the presentation follows a general plan. The need satisfaction approach starts with a search for the customer's needs by getting the customer to do most of the talking. This approach calls for good listening and problem solving skills. Any style of sales presentation can be improved with demonstration aids such as booklets, flip charts, slides, videotapes or videodiscs, and product samples. If buyers can see or handle the product, they will better remember its features and benefits.

v. Handling Objectives

Customers almost always have objectives during the presentation or when asked to place and order. The problem can be logical or psychological. And objections are often unspoken. In handling objectives, the salesperson should use a positive approach, seek out hidden objections, ask the buyer to clarify and objections, take objections as opportunities to provide more information, and turn the objections into reasons for buying. Every salesperson needs training in the skills of handling objections.

vi. Closing

The salesperson now tries to close the sale. Some salespeople do not get around to closing or do not handle it well. They may lack confidence, or feel guilty about asking for the order, or do not recognize the right moment to close the sale. Salespeople should know how to recognize closing signals from the buyer, including physical actions, comments, and question. For example, the customer might sit forward and nod approvingly or ask about prices and credit terms. Salespeople can use one of several closing techniques. They can ask for the order, review points of agreement, offer to help write up the order, ask whether the buyer

wants his model or that one, or note that the buyer will lose out if the order is not placed now. The salesperson may offer the buyer special reasons to close, such as a lower price or an extra quantity at no charge.

vii. Follow-up

The last step in the selling process follow-up is necessary if the salesperson wants to ensure customer satisfaction and repeat business. Right after closing, the salesperson should complete any details on delivery time, purchase terms, and other matters. The salesperson should schedule a follow-up call when the initial order is received to make sure there is proper installation instruction, and servicing. This visit would reveal any problems, assure the buyer of the salesperson's interest, and reduce any buyer concerns that might have arisen since the sale.

Retailing

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, non-business use. Many institutions manufacturers, wholesalers, and retailers do retailing. But most retailing is done by retailers businesses whose sales come primarily from retailing. Although most retailing is done in retail stores, in recent years non-store retailing selling by mail, telephone, door-to-door contract; vending machines, the Internet, and numerous electronic means has grown tremendously. Finally, although many retail stores are independently owned, an increasing number are now banding together under some form of corporate or contractual organization. Because store retailing accounts for most of the retail business, we discuss it first. Next, we look at non-store retailing and then at various forms of retailer organizations.

Store Retailing

Retail stores come in all shapes and sizes, and new retail types keep emerging. The most important types of retail stores are described in table given below and discussed in the following sections. They can be classified in terms of several characteristics, including the amount of service they offer, the breadth and depth of their product lines, and the relative prices they charge.

Major types of Retailers

TYPE	DESCRIPTION
Specialty stores	Carry a narrow product line with a deep assortment within that line: apparel stores sporting goods stores, furniture stores, florists, and bookstores. Specialty stores can be sub classified by the degree of narrowness in their product line. A clothing store would be a single-line store; a men's clothing store would be a limited-line store; and a men's custom-shirt store would be a super specialty store.
Department stores	Carry several product lines typically clothing, home furnishings, and household goods with each line operated as a separate department managed by specialist buyers or merchandisers.
Supermarkets	Relatively large, low cost, low margin, high volume, self-service operations designed to serve the consumer's total needs for food, laundry, and household maintenance products.
Convenience stores	Relatively small stores that are located near residential areas, open long hours seven days a week, and carry a limited line of high turnover convenience products. Their long hours and their use by consumers mainly "fill-in" purchases make them

	relatively high price operations.
Superstores	Larger stores that aim at meeting consumers' total routinely purchased food and non-food items. They include combine supermarket and discount stores, which feature cross merchandising. They also include so-called "category killers" that carry a very deep assortment of a particular line. Another superstore variation is hypermarkets; huge stores that combine supermarket, discount, and warehouse retailing to sell routinely purchased goods as well as furniture, large and small appliances, clothing, and many other items.
Discount stores	Sell standard merchandise at lower prices by accepting lower margins and selling higher volumes. A true discount store regularly sells its merchandise at lower prices, offering mostly national brands, not interior goods. Discount retailers include both general merchandise and specialty merchandise stores.
Off-price retailers	Sell a changing and unstable collection of higher quality merchandise, often leftover goods, overruns, and irregulars obtained at reduced prices from manufacturers or other retailers. They buy at less than regular wholesale prices and charge consumers less than retail. They include three main types:
1. Independent off-price retailers	Owned and run either by entrepreneurs or by divisions of larger retail corporations.
2. Factory outlets	Owned and operated by manufacturer and normally carry the manufacturer's surplus, discontinued, or irregular goods. Such outlets increasingly group together in factory outlet malls, where dozens of outlet stores offer prices as much as 50 percent below retail on a broad range of items.
3. Warehouse clubs (or wholesale clubs)	Sell a limited selection of brand name grocery items, appliances, clothing, and a hodgepodge of other goods at deep discounts to members who pay $25 to $50 annual membership fees. They serve small businesses and other club members out of huge, low-overhead, warehouse like facilities and offer few frills so services.
Catalog showrooms	Sell a broad selection of high-markup, fast moving, brand name goods at discount prices. These include jewelry, power tools, cameras, luggage, small appliances, toys, and sporting goods. Customers order the goods from a catalog in the showroom, then pick them up from a merchandise pick up area in the store.

Amount of Service

Different products require different amounts of service, and customer service preferences vary. Retailers may offer one of three levels of service self-service, limited service, and full service.

Self-service retailers increased rapidly in the United States during the Great Depression of the 1930s. Customers were willing to perform their own “locate compare select” process to save money. Today, self service is the basis of all discount operations and is typically used by sellers of convenience goods (such as supermarkets) and nationally branded, fast-moving shopping goods (for instance, catalog showrooms such as Service Merchandise or Best Products).

Limited service retailers, such as Sears or J.C Penney provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices. In full service retailers, such as specialty stores and first class department stores, salespeople assist more specialty goods for which customers like to be “waited on”. They provide more liberal returns policies, various credit plans, free delivery, home servicing, and extras such as lounges and restaurants. More services result in much higher operating costs, which are passed along to customers as higher prices.

Non-store Retailing

Although most goods and services are sold through stores, non-store retailing has been growing much faster than has store retailing. Traditional store retailers are facing increasing competition from non-store retailers who sell through catalogs, direct mail, telephone, home television shopping shows, online computer shopping services, home and office parties, and other direct retailing approaches. Non-store retailing now accounts for more than 14 percent of all consumer purchases, and it may account for a third of all sales by the year 2000. Non-store retailing includes direct marketing, direct selling, and automatic vending.

Direct Marketing

Direct marketing consists of direct communications with carefully targeted individual consumers to obtain an immediate response. Mass marketing and advertising typically reach an unspecified number of people, most of whom are not in the market for a product or will not buy it until some future date. Direct marketing is used to obtain immediate orders directly from targeted consumers. Although direct marketing initially consisted mostly of direct mail and mail order catalogs, it has taken on several additional forms in recent years, including telemarketing, direct radio and television marketing, and online and internet shopping.

Direct marketing has boomed in recent years. All kinds of organizations use direct marketing; manufacturers, retailers, service companies, catalog merchants, and nonprofit organizations, to name a few. Its growing use in consumer marketing is largely a response to the increasing fragmentation of the world's mass markets into sub segments with distinct needs and wants. Direct marketing allows sellers to focus efficiently on these sub markets with customized offers that better match segments of individual needs. It allows the seller to build continuous customer relationships by tailoring a steady stream of offers to a regular customer's specific needs and interests.

Direct Selling

Door-to-door retailing, which started centuries ago with roving peddlers, has grown into a huge industry. The pioneers in door-to-door selling are the Fuller Bush Company, vacuum cleaner companies such as Electrolux, and bookselling companies such as World Book and Southwestern. The image of door-to-door selling improved greatly when Avon entered the industry with its Avon representative the homemaker's friend and beauty consultant. Tupperware and Mary Kay Cosmetics helped to popularize home sales parties, in which several friends and neighbors attend a party at a private home during which products are demonstrated and sold.

Automatic Vending

Automatic vending is not new in 215 B.C; Egyptians could buy sacrificial water from coin-operated dispensers. But this method of selling soared after World War II. There are now about 4.5 million vending machines in the United States one machine for every 55 people. Today's automatic vending uses space age and computer technology to sell a wide variety of convenience and impulse goods beverages, candy, newspapers, foods and snacks, hosiery, cosmetics, paperback books, T-shirts, insurance policies, pizza, CDs, and videocassettes, and even shoe shines and fishing worms. Vending machines are even more popular in Japan, where they dispense everything from $100 Armani ties (gift-wrapped), boxer shorts, beer, and sausages to pearls, stuffed animals, and %8 health drinks.

The Future of Retailing

Retailers operate in a harsh and fast changing environment, which offers threats as well as opportunities. For example, the industry suffers from chronic overcapacity. There is too much retail space about 18 square feet for every man, woman, and child, more than double that of 30 years ago resulting in fierce competition for customer dollars. Consumer demographics, lifestyles, and shopping patterns are changing rapidly, as are retailing technologies. Moreover, quickly rising costs

make more efficient operation and smarter buying essential. To be successful, then, retailers will have to choose target segments carefully and position themselves strongly. They will have to take the following retailing developments into account as they plan and execute their competitive strategies.

New Retail Forms and Shortening Retail Lifecycles

New retail forms continue to emerge to meet new situations and consumer needs, but the life of new retail forms is getting shorter. Department stores took about 100 years to reach the mature stage of the life cycle; more recent forms, such as catalog showrooms and furniture warehouse stores, reached maturity in about 10 years. In such an environment, seemingly solid retail positions can crumble quickly. Of the top 10 discount retailers in 1962 (the year that Wal-Mart and Kmart began), not one still exists today.

Many retailing innovations are partially explained by the wheel of retailing concept. According to this concept many new types of retailing forms begin as low margin, low price, low status operations. They challenge established retailers that have become “fat” by letting their costs and margin increase. The new retailers success leads them to upgrade their facilities and offer more services. The wheel of retailing concept seems to explain the initial success and later troubles of department stores, supermarkets, and discount stores, and the recent success of off price retailers.

Growth of Non-store Retailing

Although most retailing still takes place the old fashioned way across countertops in stores, consumers now have an array of alternatives, including mail order, television, phone, and online shopping. “Some Americans never face a single crowd at holiday time; they do all of their gift shopping via phone or computer. A few may never even talk to a human being; they can punch in their order and credit card numbers on a web site and have gifts delivered to recipients. This might remove some of the personal touch from the process, but it sure saves time”. Although such advances may threaten some traditional retailers, they offer exciting opportunities for others. Most store retailers are now actively exploring direct retailing channels.

Increasing Intertype Competition

Today’s retailers increasingly face competition from many different forms of retailers. For example, a consumer can buy CDs at specialty music stores, discount music stores, electronics superstores, video rental outlets, and through dozens of web sites. They can buy books at stores ranging from independent local book stores to discount stores such as Wal-Mart, superstores such as Barnes & Noble or Borders Books and Music, or Web sites such as www. amazon.com. And when it

comes to brand name appliances, department stores, discount stores, off price retailers, catalog showrooms, or electronics superstores all compete for the same customers. The competition between chain superstores and smaller independently owned stores has become particularly heated. Because of their bulk buying power and high sales volume, chains can buy at lower costs and thrive on smaller margins. Independence are finding that sheer size and marketing muscle are often no match for the personal touch small stores can provide or the specialty niches that small stores fill for a devoted customer base.

The Rise of Mega-retailers

The rise of huge mass merchandisers and specialty superstores, the formation of vertical marketing systems and buying alliances, and a rash of retail mergers and acquisitions have created a core of superpower mega-retailers. Through their superior information systems and buying power, these giant retailers are able to offer better merchandise selections, good service, and strong price savings to consumers. As a result, they grow even larger by squeezing out their smaller, weaker competitors. The mega-retailers also are shifting the balance of power between retailers and producers. A relative handful of retailers now control access to enormous numbers of consumers, giving them the upper hand in their dealings with manufacturers. For example, in the United States, Wal-Mart's revenues are more than three times those of Procter & Gamble. Wal-Mart can, and often does, use this power to wring concessions from Procter & Gamble and other suppliers.

Growing Importance of Retail Technology

Retail technologies are becoming critically important as competitive tools. Progressive retailers are using computers to produce better forecasts, control inventory costs, order electronically from suppliers, send e-mail between stores, and even sell to customers within stores. They are adopting checkout scanning systems, online transaction processing, electronic funds transfer, electronic data interchange, in store television, and improved merchandise handling systems. One innovative scanning system now in use is the shopper scanner, a radar-like system that counts store traffic. By combing traffic and sales data, retailers say they can find out how well the store converts browsers into buyers.

Wholesaling

Wholesaling includes all activities involved in selling goods and services to those buying for resale or business use. A retail bakery is engaging in wholesaling when it sells pastry to the local hotel. We call wholesalers those firms engaged primarily in wholesaling activity.

Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers. But why are wholesalers used at all? For example, why would a producer use wholesalers rather than selling directly to retailers or consumers? Quite simply, wholesalers are often better at performing one or more of the following channel functions:

- ***Selling and promoting:*** Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
- ***Buying and assortment building:*** Wholesalers can select items and build assortments needed by their customers, thereby saving the consumers much work.
- ***Bulk breaking:*** Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).
- ***Warehousing:*** Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.
- ***Transportation:*** Wholesalers can provide quicker delivery to buyers because they are closer than the producers.
- ***Financing:*** Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- ***Risk bearing:*** Wholesalers absorb risk by taking title and bearing the cost of theft, damage, and obsolescence.
- ***Market information:*** Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
- Management services and advice: Wholesalers often help retailers train their sales clerks, improve store layouts and displays, and set up accounting and inventory control systems.

Types of Wholesalers

Wholesalers fall into three major groups (see table on next page) merchant wholesalers, brokers and agents, and manufacturers' sales branches and offices. Merchant wholesalers are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling. Merchant wholesalers include two broad types; full service wholesalers and limited service wholesalers. Full service

wholesalers provide a full set of services; whereas the various limited service wholesalers offer fewer services to their suppliers and customers. The several different types of limited service wholesalers perform varied specialized functions in the distribution channel.

Brokers and agents differ from merchant wholesalers in two ways: they do not take little so goods, and they perform only a few functions. Like merchant wholesalers, they generally specialize by product line or customer type. A broker brings buyers and sellers together and assists in negotiation. Agents represent buyers or sellers on a more permanent basis. Manufacturer's agents (also called manufacturer's representatives) are the mot common type of agent wholesaler. Together, brokers and agents account for 11 percent of the total wholesale volume.

The third major type of wholesaling is that done in manufacturer's sales branches and offices by sellers or buyers themselves rather than through independent wholesalers. Manufacturer's offices and sales branches account for about 31 percent of all wholesale volume.

Major Types of Wholesalers

TYPE	DESCRIPTION
Merchant wholesalers	Independently owned businesses that take title to the merchandise they handle. In different trades they are called jobbers, distributors, or mill supply houses. Include full service wholesalers and limited service wholesalers:
Full service wholesalers	Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. There are two types:
Wholesale merchants	Sell primarily to retailers and provide a full range of services. General merchandise wholesalers carry several merchandise lines, whereas general line wholesalers carry one or two lines in greater depth. Specialty wholesalers specialize in carrying only part of a line. (example: health food wholesalers, seafood wholesalers).
Industrial distributors	Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a specialty line.
Limited service wholesalers	Offer fewer services than full service wholesalers. Limited service wholesalers are of

	several types;
Cash and carry wholesalers	Carry a limited line of fast moving goods and sell to small retailers for cash. Normally do not deliver. Example: A small fish store retailer may drive to a cash and carry fish wholesaler, buy fish for cash, and bring the merchandise back to the store.
Truck wholesalers (for truck jobbers)	Perform primarily a selling and delivery function. Carry a limited line of semi-perishable merchandise (such as milk, bread, snack foods), which they sell for cash as they make their rounds to supermarkets, small groceries, hospitals, restaurants, factory cafeterias, and hotels.
Drop shippers	Do not carry inventory or handle the product. On receiving an order, they select a manufacturer, who ships the merchandise directly to the customer. The drop shipper assumes title and risk from the time the order is accepted to its delivery to the customer. They operate in bulk industries, such as coal, lumber, and heavy equipment.
Rack jobbers	Serve grocery and drug retailers, mostly in nonfood items. They send delivery trucks to stores, there the delivery people set up toys, paperbacks, hardware items, health and beauty aids, or other items. They price the goods, keep them fresh, set up point of purchase displays, and keep inventory records. Rack jobbers retain title to the goods and bill the retailers only for the goods sold to consumers.
Producers' cooperatives	Owned by farmer members and assemble farm produce to sell in local markets. The co-op's profits are distributed to members at the end of the year. The often attempt to improve product quality and promote a co-op brand name, such as Sun Maid raisins, Sunkist oranges, or Diamond walnuts.
Mail order wholesalers	Send catalogs to retail, industrial and institutional customers featuring jewelry, cosmetics, specialty foods, and other small items. Maintain no outside sales force. Main customers are business in small outlying areas. Orders are filled and sent by mail, truck, or other transportation.

Brokers and agents	Do not take title to goods. Main function is to facilitate buying and selling, for which they earn a commission on the selling price. Generally specialize by product line or customer types.
Brokers	Chief function is brining buyers and sellers together and assisting in negotiation. They are paid by the party who hired them, and do not carry inventory, get involved in financing, or assume risk. Examples: food brokers, real estate brokers, insurance brokers, and security brokers.
Agents	Represent either buyers or sellers on a more permanent basis than brokers do. There are several types:
Manufacturer’s agents	Represent two or more manufacturers of complementary lines. A formal written agreement with each manufacturer covers pricing, territories, order handling, delivery service and warranties, and commission rates. Often used in such lines as apparel, furniture, and electrical goods. Most manufacturers agents are small businesses with only a few skilled salespeople as employees. They are hired by small manufacturers who cannot afford their own field sales forces, and by large manufacturers who use agents to open new territories or to cover territories that cannot support full time salespeople.
Selling agents	Have contractual authority to sell a manufacturer’s entire output. The manufacturer either is not interested in the selling function or feels unqualified. The selling agent serves as a sales department and has significant influence over prices, terms, and conditions of sale. Found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals, and metals.
Purchasing agents	Generally have a long-term relationship with buyers and make purchases for them, often receiving, inspecting, warehousing and shipping the merchandise to the buyers. They provide helpful market information to clients and help them obtain the best goods and prices available.
Commission merchants	Take physical possession of products and

	negotiate sales. Normally, they are not employed on a long-term basis. Used most often in agricultural marketing by farmers who do not want to sell their own output and do not belong to producers cooperatives. The commission merchant takes a truckload of commodities to a central market, sells it for the best price, deducts a commission and expenses, and remits the balance to the producer.
Manufacturer's and retailers' branches and offices	Wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices can be dedicated to either sales or purchasing.
Sales branches and offices	Set up manufacturers to improve inventory control, selling, and promotion. Sales branches carry inventory and are found in industries such as lumber and automotive equipment and parts. Sales offices do not carry inventory and are most prominent in dry goods and notions industries.
Purchasing offices	Perform a role similar to that of brokers or agents but are part of the buyer's organization. Many retailers set up purchasing offices in major market centers such as New York and Chicago.

Chapter 5

Business & Economic Trade Terms / Description

- *International commercial terms*
- *LOC*
- *Pricing & payment terms*

Incoterms - International Commercial Terms

Incoterms are divided into four basic groups.

Trade Terms defined by Incoterms:

E-terms

Group E: *Departure term.* Where the seller makes the goods available to the buyer at the seller's own premises, (EXW). EXW - Ex Works

F-terms

Group F: *Shipment terms* - *Main carriage unpaid.* Where the seller is called on to deliver the goods to a carrier named by the buyer, (FCA, FAS and FOB). These are shipment contracts with the shipment point named, and carriage unpaid by the seller.

FCA - Free Carrier
FAS - Free Alongside Ship
FOB - Free On Board

C-terms

Group C: *Shipment terms* - *Main carriage paid.* Where the seller has to contract for carriage, but without assuming the risk of loss of or damage to the goods or additional costs due to events occurring after shipment and dispatch, (CFR, CIF, CPT and CIP). These are shipment contracts with the destination point named, and carriage paid by the seller. There are two critical division points, one for the division of costs, the other for the division of risk. Costs being assumed by the seller until the destination point; risk being transferred to the buyer at the point of shipment. CIF and CIP are the only Incoterms related directly to insurance cover. In these the seller arranges the contract of carriage and payment of freight and is regarded as being in a better position than the buyer to arrange insurance.

CFR - Cost and Freight
CIF - Cost, Insurance and Freight
CPT - Carriage Paid To
CIP - Carriage and Insurance Paid To

D-terms

Group D: *Arrival Terms.* Where the seller has to bear all costs and risk needed to bring the goods to the country of destination, (DAF, DES, DEQ, DDU and DDP). These are arrival contracts.
DAF - Delivered At Frontier
DES - Delivered Ex Ship
DEQ - Delivered Ex Quay

DDU - Delivered Duty Unpaid
DDP - Delivered Duty Paid

Incoterms 1990 CFR, "mirrored" correlative obligations of buyer and seller.
Grouped under the following 10 heads.
Under Incoterms 1990 all obligations related to a given trade term are grouped under headings, with the obligations for the seller and buyer under each heading stated and mirrored with respect to the same subject matter.

A	The Seller Must	B	The Buyer Must
A1	**Provision of Goods in Conformity with the Contract**	**B1**	**Payment of the Price**
A2	**Licenses, Authorizations and Formalities**	**B2**	**Licenses, Authorizations and Formalities**
A3	**Contract of Carriage and Insurance** (a) Contract of carriage (b) Contract of insurance	**B3**	**Contract of Carriage**
A4	**Delivery**	**B4**	**Taking Delivery**
A5	**Transfer of Risks**	**B5**	**Transfer of Risks**
A6	**Division of Costs**	**B6**	**Division of Costs**
A7	**Notice to the Buyer**	**B7**	**Notice to the Seller**
A8	**Proof of Delivery, Transport Document or Equivalent Electronic Message**	**B8**	**Proof of Delivery, Transport Document or Equivalent Electronic Message**
A9	**Checking - Packaging - Marking**	**B9**	**Inspection of Goods**
A10	**Other Obligations**	**B10**	**Other Obligations**

The 13 Incoterms
The 13 terms are grouped into four basically different categories:

Group E: *Departure term.*
Where the seller makes the goods available to the buyer at the seller's own premises, (**EXW**).

EXW - EX WORKS (... named place)

"Ex works" means that the seller fulfils his obligation to deliver when he has made the goods available at his premises (i.e. works, factory, warehouse, etc.) to the buyer. In particular, he is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods for export, unless otherwise agreed. The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. This term thus represents the minimum obligation for the seller. This term should not be used when the buyer cannot carry out directly or indirectly the export formalities. In such circumstances, the FCA term should be used.

Group F: ***Shipment terms - Main carriage unpaid.***
Where the seller is called on to deliver the goods to a carrier named by the buyer, (**FCA**, **FAS** **and** **FOB**)**. These are shipment contracts with the shipment point named, and carriage unpaid by the seller.**

FCA - FREE CARRIER (... named place)

"Free Carrier" means that the seller fulfils his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When, according to commercial practice, the seller's assistance is required in making the contract with the carrier (such as in rail or air transport) the seller may act at the buyer's risk and expense.

This term may be used for any mode of transport, including multimodal transport.
"Carrier" means any person who, in a contract of carriage, undertakes to perform or to procure the performance of carriage by rail, road, sea, air, inland waterway or by a combination of such modes. If the buyer instructs the seller to deliver the cargo to a person, e.g. a freight forwarder who is not a "carrier", the seller is deemed to have fulfilled his obligation to deliver the goods when they are in the custody of that person.

"Transport terminal", means a railway terminal, a freight station, a container terminal or yard, a multi-purpose cargo terminal or any similar receiving point. "Container" includes any equipment used to unitize cargo, e.g. all types of containers and/or flats, whether ISO accepted or not, trailers swap bodies, ro-ro equipment, igloos, and applies to all modes of transport.

Under Incoterms 1990 all obligations related to a given trade term are grouped under 10 headings, with the obligations for the seller and buyer under each heading stated and mirrored with respect to the same subject matter.

FAS - FREE ALONGSIDE SHIP (... named port of shipment)

"Free Alongside Ship" means that the seller fulfils his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment. The FAS term requires the buyer to clear the goods for export. It should not be used when the buyer cannot carry out directly or indirectly the export formalities.
This term can only be used for sea or inland waterway transport.

FOB - FREE ON BOARD (... named port of shipment)
"Free on Board" means that the seller fulfils his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point.
The FOB term requires the seller to clear the goods for export.
This term can only be used for sea or inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the FCA term is more appropriate to use.

Group C: ***Shipment terms - Main carriage paid.***
Where the seller has to contract for carriage, but without assuming the risk of loss of or damage to the goods or additional costs due to events occurring after shipment and dispatch, (CFR, CIF, CPT and CIP). These are shipment contracts with the destination point named, and carriage paid by the seller. There are two critical division points, one for the division of costs, the other for the division of risk. Costs being assumed by the seller until the destination point; risk being transferred to the buyer at the point of shipment. CIF and CIP are the only Incoterms related directly to insurance cover. In these the seller arranges the contract of carriage and payment of freight and is regarded as being in a better position than the buyer to arrange insurance.

CFR - COST AND FREIGHT (... named port of destination)
"Cost and Freight" means that the seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment.
The CFR term requires the seller to clear the goods for export.
This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the CPT term is more appropriate to use.

CIF - COST, INSURANCE AND FREIGHT (... named port of destination)

"Cost, Insurance and Freight" means that the seller has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium.

The buyer should note that under the CIF term the seller is only required to obtain insurance on minimum coverage. The CIF term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purposes such as in the case of roll-on/ roll-off or container traffic, the CIP term is more appropriate to use.

CPT - CARRIAGE PAID TO (... named place of destination)

"Carriage paid to... “means that the seller pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier, is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier.

"Carrier" means any person who, in a contract of carriage, undertakes to perform or to procure the performance of' carriage, by rail, road, sea, air, inland waterway or by a combination of such modes.

If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier.

The CPT term requires the seller to clear the goods for export.

This term may be used for any mode of transport including multimodal transport.

CIP - CARRIAGE AND INSURANCE PAID TO (... named place of destination)

"Carriage and insurance paid to..." means that the seller has the same obligations as under CPT but with the addition that the seller has to procure cargo insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium.

The buyer should note that under the CIP term the seller is only required to obtain insurance on minimum coverage. The CIP term requires the seller to clear the goods for export. This term may be used for any mode of transport including multimodal transport.

Group D: ***Arrival Terms.***

Where the seller has to bear all costs and risk needed to bring the goods to the country of destination, (DAF, DES, DEQ, DDU and DDP). These are arrival contracts.

DAF - DELIVERED AT FRONTIER (... named place)
"Delivered at Frontier" means that the seller fulfils his obligation to deliver when the goods have been made available, cleared for export, at the named point and place at the frontier, but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term.
The term is primarily intended to be used when goods are to be carried by rail or road, but it may be used for any mode of transport.

DES - DELIVERED EX SHIP (... named port of destination)
"Ex Ship" means that the seller fulfils his obligation to deliver when the goods have been made available to the buyer on board the ship uncleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination. This term can only be used for sea or inland waterway transport.

DEQ - DELIVERED EX QUAY (DUTY PAID) (... named port of destination)
"Delivered Ex Quay (duty paid)" means that the seller fulfils his obligation to deliver when he has made the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation. The seller has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto. This term should not be used if the seller is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and pay the duty the words duty unpaid, should be used instead of "duty paid". If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT)), this should be made clear by adding words to this effect: "Delivered ex quay, VAT unpaid (... named port of destination)". This term can only be used for sea or inland waterway transport.

DDU - DELIVERED DUTY UNPAID (... named place of destination)
"Delivered duty unpaid" means that the seller fulfils his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes and other official charges payable upon importation) as well as the costs and risks of carrying out customs formalities. The

buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time.

If the parties wish the seller to carry out customs formalities and bear the costs and risks resulting there from, this has to be made clear by adding words to this effect. If the parties wish to include in the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT)), this should be made clear by adding words to this effect: Delivered duty unpaid, VAT paid, (... named place of destination), This term may be used irrespective of the mode of transport.

DDP - DELIVERED Duty PAID (... named place of destination)
"Delivered duty paid" means that the seller fulfils his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes and other charges of delivering the goods thereto, cleared for importation. Whilst the DDU should be used. If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT)), this should be made clear by adding words to this effect: "Delivered duty paid, VAT unpaid (...named place of destination)".
This term may be used irrespective of the mode of transport.

Mode of Transport and the Appropriate Incoterms Suitable for Any Mode of Transport including Multimodal:
EXW - Ex Works (... named place)
FCA - Free Carrier (... named place)
CPT - Carriage Paid To (... named place of destination)
CIP - Carriage and Insurance Paid To (... named place of destination)
DAF - Delivered At Frontier (... named place of destination)
DDU - Delivered Duty Unpaid (... named place of destination)
DDP - Delivered Duty Paid (... named place of destination)
Suitable for Air Transport:
FCA - Free Carrier (... named place)
Suitable for Rail Transport:
FCA - Free Carrier (... named place)
Suitable for Sea and Inland Waterway Transport:
FAS - Free Alongside Ship (... named port of shipment)
FOB - Free On Board (... named port of shipment)
CFR - Cost and Freight (... named port of destination)
CIF - Cost, Insurance and Freight (... named port of destination)
DES - Delivered Ex Ship (... named port of destination)
DEQ - Delivered Ex Quay (... named port of destination)

Letter of Credit

Introduction:

As the world economy expanded, international trade started. In the beginning, there were serious problems of fraud, mismanagement and mal-practices. Importers were unwilling to make payment to the exporters in other countries unless the desired goods reached them. Similarly exporters were unwilling to ship the goods unless the payments reached them.

Definition:

A letter of credit is a commitment is just a guarantee given by one bank to third party i.e. exporter. The guarantee ensured that he will receive payments of his goods he performs certain obligations. It also ensures to the importer that payment to the exporter will only be made when goods have been received. Different writer has written different following definitions:

1. “Letter of credit is a commitment on the part of buyer’s bank to pay or accept draft drawn upon it provided draft does not exceed a specified amount”.
2. “It is written undertaken by a bank given to the seller at request and in accordance with the instructions of the buyer to affect payment up to a stated sum of money within a prescribed time-limit and against stipulated documents”.
3. “A letter addressed by one banker to another requesting the banker to whom it is addressed to hold, at the deposit of a named third party a specified amount of money and to charge the issuing banker with the total amount of all cheques honored or payments on the authority of letter”.

Types of Letter of Credit:

According to the needs of importers and exporters, banks usually operate different types of letter of credit. Following are the different types of letter of credit that are operated by bank.

1.Red Clause L/C

Under such letter of credit the opening bank authorities the negotiating bank to provide finance to the exporter so that he can purchase goods for the shipments. Such type of advances is called pre-shipment advances.

2.Green Clause L/C

Besides containing the provision to issue pre-shipment finance, this letter of credit also provides for storage expenses and warehouse charges.

3.Irrevocable L/C
Such letter of credit cannot be modified or cancelled by the opening bank. Here absolute undertaking is given by the opening bank that it will honor the draft presented by negotiating bank provided that terms and conditions of letter of credit are fulfilled.

4.Revocable L/C
Such letter of credit can be revoked by the issuing bank at any time. This means it can be modified or cancelled by opening bank without giving any reason.

5.Confirmed L/C
Such type of letter of credit is backed by the credit is blacked by the credit worthiness of both of importer and the exporter bank. Under such letter of credit the negotiating bank gives absolute undertaking that exporter will be paid even if issuing bank fails to make payment. This type of letter of credit is rarely used. Usually it is used when:

- The issuing banks do not have sound standing;
- The conditions in the issuing bank country are shaky and doubtful (danger of default or war etc.)
- The issuing bank is not well known.

6.Unconfirmed L/C
Under unconfirmed letter of credit the negotiating bank does not give any guarantee as to acceptance of draft by issuing bank. Such letter of credit is backed only by the undertaking by the issuing bank.

7.Deferred Payment L/C
Under such letter of credit the importer has the facility to make payment in installments.

8.With Resource L/C
Under such letter of credit the drawer of the draft is liable to the holder in due course if the draft is not honored by the paying bank.

9.Without Resource L/C
Under this the drawer is not liable if the draft gets dishonored.

10.Documentary L/C
Under such letter of credit the exporter must make sure that the draft and invoice are supported by different required documents.

11.Revolving L/C

Under this type of letter of credit the amount of credit is automatically renewed or reinvested once the credit conditions have been fulfilled.

12.Back to Back L/C
Back to back letter of credit is one where the person in whose favor it has been opened, uses it to establish an other credit in favor of an other person. Thus one credit backs another credit.

13.Clean L/C
Under such letter of credit no conditions are attached to the draft and the issuing bank makes payment up to the amount of the credit.

Summing up
There are different types of letter of credit. You can see that from exporter point of view, the best form of letter of credit is confirmed, irrevocable letter of credit. This is because the interest of exporters are best saved in this form of credit.

Parties Involved in Letter of Credit

There are four parties involved in a letter of credit.

1.Importer
Importer is the person on whose request bank opens letter of credit. He is also called an account party, buyer or opener.

2.Issuing Bank
It is the bank, which opens letter of credit on the request of importer.

3.Exporter
Exporter is the person in whose favor letter of credit is opened by importer. Exporter is also the seller of goods.

4.Paying Bank
Paying bank is a bank in the exporter’s country, which honors the draft drawn by exporter. When issuing bank has no branch in exporter’s country then it request any other bank of the exporter’s country to complete the letter of credit operations. Such bank is called the negotiating bank or paying bank.

Procedure of Operating Letter of Credit

Let us see how letter of credit is opened and operated.

1.Mutual Agreement

First of all importer and exporter enters into a mutual agreement. The importer who is in need of something approaches an appropriate exporter by way of cable, mail or internet. Both the parties come to an agreement.

2.Performa Invoice

Exporter then prepares an important document known as Performa invoice. In Performa invoice all details about the contract regarding name of product, its type, quality, quantity, brand name, color etc. are all stated specifically. This Performa invoice is sent to importer by the exporter.

3.Application of Letter of Credit

After receiving the Performa invoice the importer studies it. If he finds all terms and conditions satisfactory, he approaches his bank and requests to open letter of credit in favor of the exporter. This application is made on the prescribed form which is issued by the bank.

4.Processing of Application

In letter of credit, the importer's bank lends its reputation and credit worthiness to the importer. The exporter in the other country is satisfied that the credit of an unknown ordinary man is replaced by a well-known bank.

While granting the letter of credit the bank observes all standards of care and cautions which it observes while granting ordinary loan or credit. Further the bank follow the guideline given by the Central Bank regarding the export and import of different goods. Bank also checks the rates of international market of the goods, which are being imported and compares them with those stated in the Performa invoice, if there is any material difference is the rates, the bank may refuse to open letter of credit. Further the bank will examine the domestic market rates of the same imported goods in order to detect any over invoicing.

5.ICC 500

ICC stands for International Chamber of Commerce. ICC 500 is a document, which is essential for every letter of credit. It is a document, which is final authority in deciding the dispute arising in the matter of letter of credit.

6.Opening of the Letter of Credit

After complete processing of the application, if the banker finds that every document is correct, it opens the letter of credit in favor of exporter on behalf of importer.

7.Letter of Credit Margin

After opening of the letter of credit, importer is directed by bank to deposit L/C margin. As in case of granting loan, the bank demands securities, so in case of

granting credit worthiness in letter of credit this margin is demanded. Further the L/C margin is used by Central Bank as an import control weapon. When Central Bank wants to restrict imports rate of L/C margin are increased. On the other hand, when Central Bank wants to increase imports, rate of L/C margin are decreased.

8.Copies of Letter of Credit

After opening of the letter of credit, the importer's bank sends one original copy and two carbon copies to importer. The original copy is mailed to the exporter and the other one is returned to bank after being signed by importer. One copy is retained by importer for his personal record.

9.Exporter's Job

When letter of credit is received by the exporter, he makes necessary arrangement for the shipment of goods. After shipping he presents the letter of credit, shipping documents and drafts in his bank. Following documents prepared by the exporter are of great importance.

a. Bill of Lading:

Bill of lading is the receipt issued by the shipping company to the exporter. This receipt contains information about the goods shipped, port of shipment, port of delivery etc.

b.Certificate of Origin:

This document is issued by the Chamber of Commerce of the exporter's country and it states that whole of the goods or major parts of the goods that have been shipped is prepared or manufacture within the country.

c.Airway Note:

In case the goods are sent by Air Cargo then airway note is presented by the exporter as evidence.

10.Duties of Exporter's Bank or Negotiating Bank

The relationship between importer's bank and exporter's bank is that of principal and agent. The exporter's bank must follow all the guidelines given by the importer's bank regarding payment of amount to the exporter. According to the article 15 of Uniform Customs and Practice (400).

"Bank must examine all documents with reasonable care to ascertain that they appear on their face to be in accordance with the terms and conditions of credit". So from this it is clear that it is the banker's duty to refuse any such documents which are not in accordance with the conditions of letter of credit. Further the article 47 says that documents should be presented in bank within 21 days from the day of issuance of bill of lading. A bill of lading if presented by the exporter at his bank so late that it cannot reach importer before the arrival of consignment,

then it is stale bill of lading. The bank in case of stale bill of lading can refuse to accept documents.

11.Payment to Exporter

According to article 4 of Uniform Customs & Practice (400):
"in credit operation all parties concerned deal in documents and not in goods services and other performances to which the documents may relate". So the banker's job is to analyze that the documents on the face appears to be sound and free of errors. If they are so, the bank will accept them. After accepting the draft and other document from the exporter, the bank will negotiate the draft with the importer's bank and the exporter will be paid in his home currency by his bank.

12.Jobs of Importer's Bank

The importer's bank will also analyze all the documents forwarded by the exporter's bank. While analyzing the documents the bank will consider the following points:

1. Documents have been submitted within a specified time period.
2. All the documents are in accordance with terms and conditions of letter of credit.
3. The related documents such as bill of lading, insurance policies, invoices, drafts are in proper form and consistent with each other.
4. The bill of lading is not stale.

After analysis if the bank is satisfied its make payment by debiting the importer account and crediting the exporters bank account.

13.Refusal to Accept Documents

In case the importer's bank finds that the documents are not in proper order, he may decide to refuse such documents. In such a case the bank will give notice about refusal to the exporter's bank. The notice should bear the details of defects on the basis of which bank has refused documents.

14.Payment by Importer

At the time of opening of letter of credit the bank enters in a deal with the customer that when draft would be presented by the negotiating bank, the importer will make payment to the bank before the date of maturity of draft. In case of sight letter of credit, the payment is made at the time of receiving of documents. In case of time letter of credit, the importer has to make payment before the draft becomes due.

15.Receiving the Consignment

The bank hands over the necessary documents to the importer after payment is made by him. The importer then pays the custom duties and tariff and takes its consignment. However, usually clearing agents are hired for these services.

Summing up
This is how the letter of credit works to complete the trade between countries.

Advantages of Letter of Credit

Letter of credit has numerous advantages for importer and exporter and for banks. These are explained below:

Advantages to Bankers

1.Source of Income
First of all the letter of credit is a source of income for the bank. The bank charges commission for the operation of letter of credit. This commission constitutes bank earnings.

2.Increase Balances
The depositing of letter of credit margin by numerous importers increases the bank's deposits.

3.New Relations
By providing letter of credit operation the banks come across new businessmen and parties. This helps in capturing new customers.

4.Better Reputation
During letter of credit operation the banks have to maintain contract with different foreign banks. If the bank provides its services efficiently other foreign banks will take good impression of it and bank's reputation will improve.

Advantages to Importers

1.Increase Credit Standings
Due to the opening of letter of credit, the importer's credit standing increases and he is in a better position to conduct his business.

2.Business Expansion
The increase credit standing also plays an important role in the expansion of importer's business.

3.Payment in Home Currency

By opening of letter of credit the importer is required to make payment to bank in his home currency. And there is no need to fetch foreign exchange.

4.Reduction in Risk

The letter of credit helps in reducing the risk that importer faces otherwise. As exporter is not known to importer so the importer is not in a position to trust him. However, letter of credit saves importer by identifying all such details and steps that have to be followed by exporter to get payment.

Advantages to Exporter

1.Early Payment

In case of Letter of Credit the exporter can directly discount the draft after presenting necessary documents. Thus he has not to wait for the time till payment is received from the importer.

2.Pre-shipment Finance

In case of red and green clause letter of credit, the exporter that he will be paid in full provided he fulfils his part from the bank.

3.Risk Covered

The letter of credit ensures the exporter that he will be paid in full provided he fulfils his part of obligation.

Advantages to Economy

By functioning of letter of credit, every deal and transaction gets documented. This helps in the overall documentation of the economy. It also helps the government's authorities in the assessment of businessmen for tax purposes.

Price

The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product of service. Price is all around us. You pay rent for your apartment, tuition for your education, and a fee to your physician or dentist. The airline, railway, taxi, and bus companies' charges you interest for the money you borrow. The price for driving your car on Florida's Sunshine Parkway is a toll, and the company that insures your car charges you a premium. The guest lecturer charges an honorarium to tell you about a government official who took a bribe to help a shady character steal dues collected by a trade association. Clubs or societies to which you belong may make a special assessment to pay unusual expenses. Your regular lawyer may ask for a retainer to cover her services. The "price" of an executive is a salary, the price of a salesperson may be a commission, and the price of a worker is a wage. Finally, although economists would disagree, many of us feel that income taxes are the price we pay for the privilege of making money.

Factors to Consider When Setting Prices

A company pricing decisions are affected both by internal company factors and external environmental factors.

Internal Factors Affecting Pricing Decisions

Internal factors affecting pricing include the company's marketing objectives, marketing mix strategy, costs, and organization.

Marketing Objectives

Before setting price, the company must decide on its strategy on its strategy for the product. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price will be fairly straightforward. For example, if General Motors decides to produce a new sports car to compete with European sports cars in the high income segment, this suggests charging a high price. Motel 6 Econo Lodge, and Red Roof Inn have positioned themselves as motels that provide economical rooms for budget minded travelers, this position requires charging a low price. Thus, pricing strategy is largely determined by decisions on market positioning. After the same time, the company may seek additional objectives. The clearer a firm is about its objectives, the easier, it is to set price. Examples of common objectives, the easier it is to set price. Examples of

common objectives are survival, current profit maximization, market share leadership, and product quality leadership.

Companies set survival as their major objective if they are troubled by too much capacity, heavy competition, or changing consumer wants. To keep a plant going, a company may set a low price, hoping to increase demand. In this case, profits are less important than survival. As long as their prices cover variable costs and some fixed costs, they can stay in business. However, survival is only a short-term objective. In the long run, the firm must learn how to add value or face extinction.

General Pricing Approaches

The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Product costs set a floor to the price; consumer perceptions of the product's value set for the ceiling. The company must consider competitors' prices and other external and internal factors to find the best price between two extremes.

Companies set prices by selecting a general pricing approach that includes one or more of these sets of factors. We will examine the following approaches: the cost based approach (cost-plus pricing, breakeven analysis, and target profit pricing) the buyer based approach (value based pricing), and the competition based approach (going rate and sealed bid pricing)

Cost Based Pricing

Cost-Plus Pricing

The simplest pricing method is cost plus pricing adding a standard markup to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals typically price by adding a standard markup to their costs. Some sellers tell their customers they will change cost plus a specified markup.

Breakeven Analysis and Target Profit Pricing

Another cost oriented pricing approach is breakeven pricing, or a variation called target profit pricing. The firm tries to determine the price at which it will break even or make the target profit it is seeking. Such pricing is used by General Motors, which prices its automobiles to achieve a 15 to 20 percent profit on its investment. This pricing method is also used by public utilities, which are constrained to make a fair return on their investment.

Value Based Pricing

An increasing number of companies are basing their prices on the product's perceived value. Value based pricing uses buyers' perceptions of value, not the seller's cost, as they key to pricing. Value based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with the other marketing mix variables before the marketing program is set.

Cost based pricing is product driven. The company designs what is considers to be a good product, totals the costs of making the product, and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits.

Value based pricing reverses this process. The company sets its target price based on customer perceptions of the product value. The targeted value and price then drive decisions about product design and what costs can be incurred. As a result, pricing begins with analyzing consumer needs and value perceptions, and price is set to match consumer's perceived value.

Chapter 6

Business Communication & Business Logistics

- *Process of communication*
- *Principles of business communication*
- *Preparing effective messages*
- *Form & style of letters in business*
- *Inquiries & replies*
- *Oral presentation*
- *Telecommunication*
- *Transportation*
- *Rail, road, air freight, shipping*

Communication

There are a number of definitions of the term communication. A few of them as under.

1. Communication is the sum of all things, one person does when he wants to create understanding in the mind of another; it involves a systematic and continuous process of telling, listening and understanding.

2. Communication has been defined “as the transfer of information from one person to another whether or not it elicits confidence”.

3. Communication is an exchange of facts, ideas, opinions, or emotions, by two or more persons.

4. Communication is defined as “the process of passing information and understanding from one person to another, it is essentially a bridge of meaning between people. By using the bridge of meaning a person can safely cross the river of misunderstanding.

Basis of Managerial Function

Communication plays an important role in discharging the various functions of management. No function of management is possible without the communication process. Its importance in performing the various functions is as follows: -

i. Planning

Planning, the most important among the functions of management, requires extensive communication among the executives and other personnel. Communication is important in executing a planned program and then controlling the activities of the personnel.

ii. Control

Communication aids in controlling the activities of the individuals, departments, and groups. The facts, standards, and information are communicated to the concerned parties and they perform their respective obligations according to the standards set forth in the plan. The management evaluates their performance in the light of the standards fixed in the document. It all requires proper communication.

Maximum production at Minimum Cost

Every organization aims at getting the maximum output at the minimum cost and for this purpose, it requires an effective internal communication system. In the external field, and efficient communication system helps in improving public opinion, having contacts, with govt. departments and getting market information in order to achieve the primary goals. It can seek cooperation of the workers by telling them the goals of the organization and the ways to achieve them.

Prompt Decision and it implementation

In order to make prompt decision, fact-collecting process is necessary. Information must be received before any meaningful decision an for this purpose communication is a primary requirement. Again to implement the decision effectively, its communication to subordinates concerned is essential. Thus, decision-making and its implementation require effective system of communication.

Building Human Relations

Man is the most active and effective factor of production, and good human relations are the basis of cooperation and industrial peace that requires good working conditions and work-environment. Communication is a two-way traffic, which helps promote cooperation and mutual understanding between the two partners of an organization. Efficient downward communication helps the management to tell the subordinates what the organization wants and how it can be performed. On the other hand, upward communication helps the workers in putting their grievances, and suggestions and reactions of the policies, before the management. Thus, an efficient communication system builds human relations.

Job Satisfaction and Good Morale

Morale is the human element that motivates a man to work in the right spirit. Good communication removes the possibility of misunderstanding among the parties concerned. Workers know what they have to do and how it creates a sense of cooperation among them. It increases the morale of the workers and each worker will have job satisfaction.

Contacts with External Parties

Communication is essential not only for the internal management of the organization but it also helps contacts with the outside world. Contacts with

outside agencies such as customers, associations, other manufacturers, advertisers, suppliers, trade unions, research councils and institutions etc, are necessary for furthering the interests of the organization. It increases the goodwill of the firm and helps in creating a favorable public attitude towards the organization. Thus, communication contributes towards maintaining good relations with the outside world. In short, communication serves as a lubricant for fostering the smooth operations of the management process.

The Process of Communication

The process of communication requires at least six steps i.e. Ideation, Encoding, Transmission, Receiving, Decoding and Action.

Ideation

The first step in communication is ideation. Here the sender thinks of an idea, which is wants to communicate to the other party. This is the content and the basis of the message. He must have something to say before he really says it. The sender must also keep in mind the party to whom the message is intended to be conveyed, and also the channel to be used.

Encoding

Under this step the messages are composed of symbols having a certain meaning for the sender and the receiver. Encoding is, thus translation of an already conceived idea by a sender into a message appropriate for transmission. Encoding includes selection of the mode of communication. The wording of the message may be different for different methods of communication to be used. A telegram may be differently worded from a letter. A telephone conversation may be different from face to face conversation. A green signal and a whistle from the guard are sufficient signals to train driver for starting the train, such signals are not sufficient for an airplane to take off.

Transmission

The third step is transmission or conveying of the message as encoded by the sender. Transmission conforms to the method selected by the sender in the preceding step. The sender also chooses the channel or path of communication through which the message is to travel from the sender to the receiver. The channel may be mass media such as newspaper, radio, television, films, etc. or interpersonal involving direct exchange between source and receiver such as telephone, correspondence or non-verbal symbols like hands or facial gesture, or

other body movements. The sender must consider the effectiveness of the channel in making his selection.

Receiving the Message

The next step is the receiving of the message by the receiver. The receiver must pay due attention to the message he receives. Any neglect on the part of the receiver may make the communication ineffective. Thus, the receiver should be a good listener.

Decoding

Decoding is the reverse of encoding. It means translation of symbols etc. encoding by the sender into an idea for understanding. The receiver decodes the message by changing the symbols into a meaning. Understanding the message sent by the sender is the key to the decoding process. If the receiver could not decode the message correctly to make it understandable, or misunderstands it, the communication is rendered ineffective. This happens because perceptions of two persons may be quite different.

Action

It is the response by the receiver of the communication. He may ignore the message completely, or may store it, or may act directed by the sender. Thus, it is an action or reaction on the part of the receiver in response to the message received by him from the sender. He may also send a message to the sender in response to the original message from the sender.

Elements of Communication

Various elements involved in the process are broadly grouped into (i) Source (ii) Message (iii) Channel (iv) Receiver (v) Effect and (vi) Feedback. A discussion of these follows: -

1. **Source:** The source is the originator of the idea or the message. It may also be known as the sender who may be an individual or a group through ultimately, it is an individual who might be acting the role on behalf of a group. The source conceives the idea, prepares the message, selects the channel, and decides about the receiver.

2. **Message:** It refers to the stimulus that the source transmits to the receiver. It is what communication is all about. Messages are composed of symbols

having a certain meaning to the source and the receiver. Translation of an idea into a message appropriate for transmission by the source is called encoding. When the message (symbols etc) is converted into a certain meaning it is known as decoding. The receiver does decoding. The message should be clearly worded so that easily understood by the receiver.

3. **Channel:** The channel is a means through which the message travels from the source to the receiver. The channel may be mass media (not meant for any particular individual) such as newspaper, radio, TV etc, or interpersonal (for a particular individual) such as telephone, correspondence etc. Selection of the channel depends upon the message to be conveyed, availability of the channel, cost of the channel, effectiveness of the channel etc.

4. **Receiver:** The receiver is the person for whom the message is intended. It is the single most important element in the communication process. Any neglect on the part of the receiver may render the communication ineffective.

5. **Effect:** Effect is the change in the behavior of the receiver occurring in response to the message received. The receiver may ignore the message, or store the information received, or act according to the wishes the source.

Nonverbal Communication

By non-verbal communication, we mean all communication that involves neither written nor spoken words but occurs without the use of words. Our definition is broad enough to include non-verbal communication that occurs together with verbal communication as well as non-communication involves words. In contrast verbal communication involves words. In nonverbal communication we are concerned with such things as body movements, space, time, and choice rhythm inflection as well as general characteristics of the environment color and layout design.

Classification of Nonverbal Communication

Nonverbal communication includes kinesics proxemics, time, language, paralanguage and physical context.

Kinesics

The most often-studied sub area of nonverbal communication is kinesics or body movement. Some in fact believe that kinesics ad nonverbal communication are the

same? Because kinesics is so widely known, we will examine it. First we will define kinesics. Then we will look at the various types of body movement to see how we can use them for business communication.

We can define kinesis as the study of the body's physical movements. In other words, it is the way the body communicates without words that are through various movements of its parts. We will examine each of these body parts for more specific symbols of body language.

Face and Eyes: By far, the face is where we look for most expressions of what is going on inside us. Within the facial area, the eyes tell us much more than other facial features. Thus, we look to the face and eyes when we want to determine much of the meaning behind body language and nonverbal communication.

Gestures: In addition to the face and eyes, other body parts move and convey meaning. We refer to these movements as gestures the physical movement of arms, legs, hands, torso, and head.

Body Shape and Posture: A third area of kinesics involves body shape and posture. Because body shape and posture affect how we think about ourselves, how we relate to others, and how others relate to us.

Appearance: The final area of kinesics is appearance. By appearance we mean clothing, hair and adornments such as jewelry, cosmetics and the like. At first glance, it may seem that appearance is unrelated to body movements. Closer inspection, however, reveals that appearance relates to how the face, eyes, gestures, posture, and shapes all those aspects of body language we have discussed are perceived. Thus, appearance tells others how we want to be seen how we practice the "rules" of the game. If you changed you appearance drastically from formal to informal, for example how would others respond? When do you give your appearance special attention? These occasions tell you about the importance of appearance.

By now you surely see that appearance affects the way we are seen and want to be seen by others. Indeed, books on successful dressing and image consultants attest to the importance of appearance. Although there are many aspects to appearance, the basic idea is this: you should adapt your appearance specifically to the one occasion.

You should consider how others would view you in relation to how want to be seen. Just like other features (face, eyes, hands, arms, posture, and shape) appearance is an inevitable part of the meaning derived from our bodies' movements. You should expect appearance to be part of the messages you

communicate, and you should plan your appearance so that it will effetely communicate to others.

Proxemics

Another type of nonverbal communication is Proxemics the study of how we communicate with the space around us. If you think about it carefully, you conclude that the space around you and its contents communicate. They create meaning in your mind and in other minds. We can define proxemics, then as the study of space around us how we arrange it and what we arrange in it. In other words, Proxemics is, personal space language, just as kinesics is “body language”. These four spaces are called: -

1. Intimate
2. Personal
3. Social
4. Public

Without questions, the type and quality of our communication activities differ in each of these four zones. But remember that we determine these areas individually, and can change them by changing our physical location. Thus, they are specific to us personally.

Time language

Another type of nonverbal communication, time language involves the meaning we give to time. That is, how we communicate to others what time means to us. In order to give meaning to time, we must perceive it, filter it and symbolize about it. But our final symbolizing about time is not always done with words. You may be surprised at how time is communicated subtly as well as explicitly. Within each person there appears to be a time language just as there is a body language and a space language.

As a communicator, you should recognize the receiver’s time language. You must remember that not all time perspectives are the same. You should also be aware that you have a time language uniquely your own. It projects your own meanings for time. Finally you can and should adapt time meaning to fit the receiver’s mind just as you do your words in written or spoken messages.

Paralanguage

Still another type of nonverbal communication is known as paralanguage or paralinguistic. Of all the nonverbal types, it is the closest to actual verbal communication. By paralanguage we mean how a person says something. Paralanguage involves the "how" of a speaker's voice rather than the "what" of the words: para means "like" thus, paralanguage literally means "like language" it involves those hints and signals in a person's voice that us meaning.

In a paralanguage, we examine the sound of someone's speech. If a fast or slow? Is it high pitched or deep? It is loud and forceful or barely audible". It is smooth or disjointed. These are the types of signals with which paralanguage is concerned. The signals (as symbols) become a part of the total meaning one receives.

Colors

Most people who study the effects of colors conclude that different colors are associated with different moods and behaviors. Artists, interior decorators, and image consultants all contend that the right color combinations can project appropriate feelings. It would appear, then that we have a color language in addition to the other types of language we have mentioned.

Black and gray convey negative feelings blue and yellow, positive feelings. Give attention to color (clothing office etc.) to create a desired effect. We can conclude three things about nonverbal communication.

1. Nonverbal communication is pervasive. We need to learn how to observe it.
2. Nonverbal symbols are vague and inconsistent.
3. Nonverbal communication applies primarily to face-to-face, oral communication.

Principles of Business Communication

The rapidly, expanding fast moving business world with its complex problems and situations requires equally dynamic, effective, efficient and quick result oriented business messages. In business communication this aim can be achieved by observing the rules of good writing. In business writing particularly in a business letter, the language must be correct, the tone courteous the sentences cohesive, the matter complete, the message clear and the over all impression that of confidence, sincerity and integrity.

For this purpose some authors have devised certain writing principles. As all these principles begin with "c" and are seven in number these are known as 7c's. Observance of these principles in writing effective business messages like letters, reports, etc. is essential. These principles are as follows: -

1. Correctness
2. Conciseness
3. Clarity
4. Completeness
5. Concreteness
6. Consideration
7. Courteousness

1. Correctness

It means accuracy of contents, form, language and expression. In business letter or reports, correctness means.

a. Use of correct level of language.
b. Inclusion of only accurate facts and figures.
c. Maintenance of acceptable writing mechanics.

a. As language is the dress of thought, it is essential to use proper language in writing. Extremely formal language such as anticipate, accomplish, ascertain, deem, endeavor, terminate etc, may confuse the reader. In place of these words one may use informal words such as expect, to find out, think, try, end, etc. Of course informal does not mean slang or conversational language like "have not got" (correct form regarding) "the deal is not on" (correct form "the deal is not acceptable") etc.
b. Maintenance of acceptable writing means correct spelling and punctuation marks. It is very important in writing communication.

Inability to spell words correctly diminishes the image of the writer as well as the company. It shows carelessness, inefficiency and insincerity. Incorrect punctuation marks not only spoil the beauty of the composition, but may also cause miscommunication by changing meaning of the message.

c. The necessity of absolute accuracy of facts and figures in a written message cannot be overemphasized. The error of a single digit in a figure may change the entire situation. Such mistakes indicate not only carelessness but may create legal complications as these messages are kept in record and may become part of a contract. The writer should always check and double check facts and figures, be aware of the current position and keep him well informed about the changes going on around.

2. Conciseness

It means that the message should be as brief as possible. A concise message saves time (a valuable asset) of both the sender and the receiver. In business the message should be in the fewest possible words. To save time and money a business message should be concise without sacrificing any other principle.

Following guidelines are helpful to achieve conciseness: -

a. The writer should avoid out dated hackneyed expression. For examples, “it has come to my attention” may be written as “it t has come to my attention” or “enclosed please find” may be said as “enclosed is”.
b. Avoid unnecessary repetition and wordy expression. For example due to the fact that because, in accordance with your request as you requested, in view of the fact because, in some cases sometimes.
c. Include only relevant facts and figures with courtesy. Conciseness does not mean incomplete or discourteous message, which will destroy its own purpose. A business message must include all the necessary facts and ideas excluding information already known to the reader, long introduction and unnecessary explanations.
d. Use short sentences and paragraphs. The message may be kept brief by using short sentences and paragraphs. In business writing each word, each sentence and each paragraph should advance and clarify the meaning of the message and make the message a compact whole.

3. Clarity

It means that the business message should be clear in all respects. In business writing, the message must be absolutely clear to the reader both in meaning and

spirit. Miscommunication must be avoided at all cost, as it is always disastrous. Therefore, clear and straightforward expression is a basic requirement. The writer should remember that clear thinking and clear writing go together. A round about way of expressing (which may be termed as beating about the bush) is always confusing to the reader. To achieve clarity, the writer should observe the following principles: -

a. Choose words that are short, familiar and conversational.
b. Make effective sentences and paragraphs.
c. Make message readable and comprehensible.
d. Give examples, illustration charts, graphs and other visual aids, if require to make the message clear.

4. Completeness

It means that the business message should be complete to bring the desired result. The business message must contain everything that will motivate the reader to respond in a positive way. A complete message helps the writer in several ways. By giving all necessary information one can avoid legal problems. It helps in avoiding inquires and further correspondence in the same context. It helps to achieve positive results. Incomplete messages are never effective. This may be achieved by observing the following guidelines: -

a. The message should answer all the questions asked in a serial order and explain all the ideas needed for message to be readable, acceptable and result-oriented.
b. Give some extra information, if desired.
c. Make sure to answer 5 Ws such who, where, when and why. This is particularly useful when one writes request, announcement and other informative messages. For example while placing order the writer should make clear “what he wants” when he needs it. To “whom” and “where” it is to be sent and “how” payment will be made. It may be concluded that completeness is a principle that makes the business message effective and useful.

5. Concreteness

It is opposite to abstractness. In business, the writing should be specific, definite, vivid and not vague or ambiguous. Concreteness is essential to achieve clarity. A vague and general message is sure to mislead the reader and cause miscommunication.

The following guidelines are helpful to write correctly:

a. The writer should use specific facts and figures. For example, the following expressions, are vague and general:
“Please send your cheque in full as soon as possible”.
“Our company has won many prizes recently”.

These expressions may be improved and made concrete.

“Please send your cheque for Rs. 20,000 on or before May 9, 2004.”
“Our company has won the prize in international trade contest in England for the last three years”

b. Put action in the verbs and the use of active/passive voice should be selective. Strong and active words can make the sentence definite and can be forceful when informing, motivating and persuading the reader. For example, “it is proposed” should be “ we propose”. “An account was opened by him” should be “He opened an account”, “experiment were carried out by us” should be “we carried out experiments. Generally, active voice is stronger “You” is more personal and appealing. But if the news is of negative nature passive voice and third person (impersonal) pronoun is more suitable, for example, “you failed to put your cheque in the envelope” should be “the envelop we received did not have your cheque in it”.

c. Should use vivid and image building words. Vivid language often expresses an idea impressively. For example, “Saima is the one who gets things started in the organization” can be vividly expressed as “Saima is the spark plug of the organization”. “The impression your drawing room sofa gives is one of elegance” is better expressed by “the sofa adds elegance to your drawing room”.

6. Consideration

It refers to “your” attitude, understanding of human nature, personal touch, and sympathy for the reader. While writing in business the writer should give full consideration to the reader. In the communication process, the receiver is the most important person. Therefore, his/her interest/benefit and his/her comprehension of the message are of great value. This principle is interlinked with one of the planning steps in business communication visualizing the reader/receiver. Consideration for the reader is the first and the final part in wise planning. The more consideration the writer gives to the reader, the greater is the chance of positive response. To achieve this principle in writing, following guidelines should be observed: -

a. Focus on your interest of 'I' and 'we'. The reader is naturally more concerned about his/her own interest. Therefore, the focus should be on second person pronoun. For example, "you earn 5% discount on cash payment" is a better expression than" we allow you 5% discount on cash payment". Of course in case of negative/bad information the writer should use third person or impersonal pronoun. For example, "you failed to understand our teams" should be "our terms have been misunderstood" (there is no need to say by whom).

b. Show interest and benefit of the reader. The writer should try to personalize the reader's benefit. The message should stress on what the reader will get and not on what he has to give.

c. The writer should emphasize the positive and pleasant facts.

Pleasant and positive facts should be presented directly and at the beginning. But negative and bad information should be given in a round about way and after preparing the ground. A little tact can often change negative unpleasant information into a pleasant one. For example: "To avoid the loss of your good credit rating in the market (unpleasant)". It may be written as "to preserve your good credit rating in the market (pleasant)".

7. Courtesy

"Everyone gains where courtesy reigns" is an old but wise saying. Courtesy is a goodwill builder. It is all the more important in written communication than in oral discussion. Courtesy and politeness are essential to win customers. None likes a rude person as well as a rude message. No amount of money or effort can promote goodwill as courtesy can. Following guidelines should be observed to achieve courtesy in business writing.

a. Be tactful, sincere and appreciative. Courtesy comes form sincere attitude towards others. A courteous person tries to understand others and helps them in every possible way. While refusing something or pointing out some mistake one should be extremely tactful so that no one feels hurt. One should appreciate others by saying, "thank you" "please" etc. If bad news is to be given, it should be done honestly, realistically and with regret.

b. In business one should answer all mail promptly and politely. In business, reply to mail should be done the same or at best the next day. Keeping someone waiting for the answer is extremely discourteous. A business letter should never reflect an angry mood of the writer.

Whatever may be situation, a business message must be polite and courteous.

c. In business writing, one should grant and apologize good-naturedly. When one has to grant a customer's request, it should be done well naturedly and not grudgingly. A grudgingly accepted claim may cause the loss of goodwill. When one has to apologize, it should be done without hesitation.

Process of Preparing Effective Messages

No business activity takes place without proper planning. As communication plays a vital role in business, it must be planned carefully, methodically and effectively. There are certain planning steps that a communicator must follow to make the message effective and positively result-oriented. The following stages should be kept in mind in order to achieve this objective.

Planning The Message

Stage-1

Write down your objective. It is always a good idea to write down (preferably in one or two sentences) exactly what you are trying to achieve by your message. You will then have it always before you to help you to organize your material and avoid straying from the point.

Stage-2

Assemble the information. Using notes on paper or index cards if it is to be fairly long message like a report or oral presentation of some kind, jot down all the ideas or points, which you think you, need to make.

Stage-3

Group the information. Now consider your list and look for links between the bits of information. Rewrite your notes in clear groups. It helps to give each group a heading. The groups will probably become the paragraphs or sections in your finished message and the leading will either remain as headings (if headings are appropriate) or contain the gist of each group and will therefore help you to compose the main sentence of the paragraph, often called the ‘topic sentence’. Remember that all paragraphs should have only one main idea. All the other ideas in the paragraph will be supporting material-examples, elaboration, illustrations and so on, of the main idea.

Stage-4

Put the information into legal sequence. Your next task is to put the groups of information (still only in note form) into some sort of sensible order, which your reader can follow.

Perhaps the most common method is chronological order (or historical order), which merely presents the material in the order in which it occurred or occurs in time. On occasions presenting the material chronologically is the most appropriate order. This order is not usually advisable in business writing except in persuasive writing where it can be very effective.

Ascending order of complexity

Simpler ideas first followed by increasingly difficult or complex material.

Descending order of familiarity

Moving from the known to the unknown.

Cause and effect

Put simply cause and effect means because of this, then, that in order words, because this happened, that happened.

Topical

Sometimes of course there appears to be no real link between the chunks of material and no obvious pattern of development. In this case, all you can do is deal with each chunk on a topic-by-topic basis.

Stage-5

Produce a skeleton outline. By working through the previous four stages you will have produced in effect a plan or skeleton outline of your finished message but if this outline is not clearly on a piece of paper and your message is fairly long, it is essential to produce this plan which you can then use to work from. It will make the job of writing or presenting your final message much easier and the receiver's job of understanding you also much easier.

Stage-6

Write the first draft. Now you are ready to start writing. Write the first draft to yourself. Do not worry at this stage about the style and the words that can come later. Many people find that actually starting to write, particularly anything of any length and complexity is the most difficult barrier to get through.

However, if you take this advice and you have done the massage preparation and planning including some thought on what you are going to put in the introduction the main body of the message and the conclusion, you will probably find that the words themselves come much easily.

Stage-7

Edit the rough draft and write the final draft. Once you have written the first draft you are now required to put yourself in the shoes of your receiver. Read your draft through his eyes, checking for ambiguities, errors, awkward expressions, lack of signpost words ('first' 'second' 'finally', on the other hand; consequently etc.), which are essential to guide our reader along the route of your argument, and above all, aiming for a concise easily, understood style.

The following tips may help you.

1. Vary the length of the sentences but keep them on the shorter slide.
2. Paragraph should have only one main idea.
3. Use words that the reader will understand.
4. Avoid un-business like colloquialism (e.g. to cut a long story short).
5. Omit unnecessary words.
6. Use the shorter rather than the longer word or phrase, if appropriate.
7. Avoid hackneyed expressions (clichés please find enclosed; thanking you in anticipation for example).
8. Avoid needless repetition of words and phrases find alternative, whoever possible.
9. Use sincere words do not overstate or exaggerate.
10. Use positive wards rather than negative words if possible.
11. Use the active rather than the passive voice.

Form and Style of Letters in Business

To maintain uniformity, business organizations generally use the following forms for writing letters.

Modified Block Form

This is the most popular in modern times. In this form the date, complimentary closing and signature are placed near the center of the page. All other parts of the letter are kept at the left margin. The inside address, the salutation and the paragraphs are arranged in block without identification. To maintain clarity double spacing between the inside address and salutation and single spacing between the lines is provided.

Semi Block

The fundamental aspect of this from is that all the elements of the letter are placed at the left hand margin to facilitate filing. Other elements of the letter are kept at the left margin and the first word of each paragraph is indented by 5/7 spaces.

Full Block

The fundamental aspect of this form is that all the elements of the letter are placed at the left hand margin in the shape of blocks. This is the fastest style to type. The letter is typed single with a blank line between paragraphs.

AMS Simplified Form

It is the style adopted by the Administrative Management Society of the USA. It eliminates salutation and complimentary closing and sometimes uses a subject line in place of salutation. It uses full block and open punctuation. It is not very popular outside the USA.

Hanging / Identification

In this style the first line of each paragraph of the letter body is indented or hanging. This form is suitable only for sales and advertising messages.

Official Letters Style

Government officials generally use this form. Sometimes it is used by business organizations as well. It may be block or semi-block. The main feature of the

format is that the inside address is placed at the bottom, below the last line of the signature.

Indented

In this style, the old format is maintained that is indented paragraph and other parts as traditionally used. Some examples of letter formats are:

Modified Block Form

Saima Chemical Industries
999-A, LCCHS, Lahore
December 6, 2004
Ref. No. ________________

General Manager,
Shahzad Pharmaceutical Company,
Hussain Chowk, Gulberg,
Lahore.
Dear Sir,

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Sincerely yours,

(Sultan Khan)
General Manager

Block Form

SAIMA INDUSTRIES LIMITED
999-Ferozpur Road, Lahore.

December 4, 2004
Ref No. ________

The General Manager,
Rashid Minhas Garments,
Liberty Market, Lahore.

Dear Sir,

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Sincerely yours,

(Masood Ali)
Manager Operations

Full Block Form

SAIMA PHARMACEUTICALS COMPANY

98-C-Libery Plaza, Liberty Market, Kashmir

April 18, 2004

Mr. Muhammad Imran
Manger Curriculum
Waqas Trading Corporation
Faisal Town, New Villas,
Faisalabad.
Dear Mr. Muhammad Imran

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Sincerely

(Javed Iqbal)
Manager Administration

AMS Simplified Format

SAIMA MINHAS CORPORATION
New Liberty Market, Kashmir.
April 30, 2004
Ref. No. __________

Mr. Javed Waqas
Manager Human Resource
Sehgal Manufacturing Corporation
Liberty Market, Gulberg,
Lahore.

INTRODUCTION OF NEW PRODUCTS
First paragraph starts here
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Second paragraph
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Third paragraph
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(Wali Muhammad)
Marketing Manager

AMS Simplified Format
Hanging Indentation

Saima Group of Industries, Kashmir Road, Main Boulevard, Kashmir.
Mr. Iftikhar Munir Shah
Panorama Centre
The Mall, Lahore.
Dear Mr. Iftikhar
First paragraph starts here

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Second paragraph

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Third paragraph

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Sincerely yours

(Muhammad Qasim)
Director Operations

Inquiries and Replies

Inquiries are the letters that ask for information, price quotations, terms of payment, catalogues, articles, services special data, particular knowledge and the like. The object of trade enquiries is to enquire that the person sending enquiries received goods at the most advantageous terms or to find out better sources of supply or to tap some new business line.

An enquiry should indicate exactly what is wanted. Follow this plan:

1. State the subject of your inquiry.
2. Add whatever explanatory material will be helpful, such as specific details, definitions and the like.
3. Briefly give the reasons for your inquiry making it clear why the letter is addressed to the reader.
4. End courteously and avoid the “Thanking You” in advance. This is a stock phrase of poor quality indeed. It is also a discourtesy because it takes too much for granted.

These letters are of two kinds:

a. The solicited letter of inquiry, which is usually in response to an advertisement inviting the reader to write in for further information to a certain department or division.
b. The unsolicited letter of inquiry, in which the writer takes the initiative in asking for information.

Replies to the inquiries

A progressive firm looks upon an inquiry for its goods or services as an opportunity that must not be missed. It is an opening or a prospect, which must be built up into a sale or into goodwill. An inquiry should handle courteously whether the desired information is supplied or withheld. The exact information, if available, should be given in the briefest possible form. The seller must give the information regarding the price of the goods, the terms and conditions, the mode of delivery and the mode of payment while supplying quotations.
Follow the plan:

1. Careful attention should always be paid to the inquiry.
2. Prompt reply should always be given.
3. Indicate the prices, the conditions of payment, and the length of time for which the offer will hold well.
4. Courtesy and consideration should always be maintained.

5. If price list is enclosed or sent separately, the fact should be stated.

Enquiry for the prices of pens

Dear Sirs,
Please quote us as early as possible your lowest possible prices for the following Fountain Pens:

1. Eagle, Silver Cap
2. Black Bird, 19A Model
3. Ahmad. All colors and Sizes

As we are interested in placing a sizable order for the above-mentioned Fountain Pens, please indicate your best possible terms for bulk purchase. If your quotations are suitable, we may cover all out requirements through you.

Yours faithfully,

Reply

Dear Sirs,
In response to your inquiry of April 30, 2004, we offer you the following prices for the pens, which we hope, will be appealing to you:

1.	Eagle, Silver Cap	Rs. 120 Per Dozen
2.	Black Bird, 19A Model	Rs. 180 Per Dozen
3.	Ahmad	Rs. 105 Per Dozen

The Pens are of the best quality and are available in all sizes and colors. These are ready for immediate delivery at any time subject to 5% trade discount for payment within a month.

We believe a favorable consideration and shall wait for your order anxiously.

Yours faithfully,

Inquiry Regarding Machinery

Dear Sirs,
We are indebted for your address to Miss. Saima Butt, and now send you the enclosed drawings of three pumping machines. Will you please inform terms as well as the condition and us as soon as possible the prices upon which you could supply them and the date of delivery? We would, however, mention that we should require the machines not later than the May 1, 2004.

We shall need further similar equipment to complete our plant and may consider passing you further orders, should the machines prove satisfactory.

Yours faithfully,

Reply

Dear Sirs,
We have your letter of April 19, 2004, informing us that you intend to place your order for three pumping machines with us.

We should be able to supply the three machines as per drawing sent, as follows:

No. 1 at Rs. 1,200 Per Machine
No. 2 at Rs. 1,100 Per Machine
No. 3 at Rs. 1,000 Per Machine

Ex 555-G, Kashmir Road, Kashmir, net cash. The machines will, moreover, be ready for dispatch by May 30, 2004. We have quoted you the lowest possible prices and hope to receive your order soon.

Yours faithfully,

Enquiry

Dear Sirs,
Our friend, Mr. Amjad of Amjad General Stores of this city, has mentioned your name as manufacturer of fancy goods to us.

As we propose to buy a considerable quantity of fancy goods for the ensuring Eid Festival, we shall be glad if you send us your catalogue together with quotations for large quantities. Please state also the time you will require to effect delivery and the conditions of payment.

We hope you will facilitate business by quoting rock-bottom prices.

Yours faithfully,

Reply

Dear Sirs,
Thank you very much for writing us about the Elpha Shirts. We are sorry these are not on sale in your city. We, however, appreciate your interest in these shirts. The booklet enclosed shows various sizes and styles of the Elpha Shirts, we have on

hand now. You letter of April 1, 2004 indicated that you were especially interested in cotton-tetron shirts, which you would find, described on page 99.

In view of the fact that we are going to have a little variation in the prices at the end of this month, we urge you to decide about it immediately. We shall give you a handsome discount of 15%, if your purchases exceed Rs. 10,000, with one month's credit.

The card enclosed enables you to take advantage of this money saving opportunity.

Yours faithfully,

Enquiry

Dear Sirs,
We have received a number of enquiries from customers for cotton bed-sheets and should be glad if you would send us full particulars of your ranges, including sizes, colors and prices inclusive of packing and delivery charges. If illustrated brochures or pamphlets were available it would be helpful if you would send us copies.

When replying, please state delivery period, discounts and terms of payment.

Yours faithfully,

Reply

Dear Sirs,
We are pleased to receive your enquiry March 1, 2004 and enclose a copy of our illustrated brochure showing our various ranges of bed-sheets. The sheets are made in four standard sizes, from 75cm to 150cm and supplied in pink, blue and green. They are made both in cotton and polyester cotton material of exceptional wearing quality.

The prices quoted n the brochure cover packing, and delivery and are subject to 30% trade discount. Terms of payments are 2% one month from date of invoice. We can promise delivery within seven days of receiving an order.

We look forward to receiving an order fro you, but if either you or your customers would like more information, we should be very happy to arrange for one of our representatives to call on you.

Yours faithfully,

Enquiry

Dear Sirs,
Please send us your quotations for:

12 Dozen Tea Cups and Saucers
15 Dozen Coffee Cups and Saucers
25 Dozen Dinner Plates
15 Dozen Small Glasses

Yours faithfully,

Reply

Dear Sirs,
We thank you for your letter number 666, dated the 21st May 2004.

We submit our quotations:

1. 12 Dozen Tea Cups and Saucers at Rs. 24 per dozen.
2. 15 Dozen Coffee Cups and Saucers at Rs. 28 per dozen.
3. 25 Dozen Dinner Plates at Rs. 60 per dozen.
4. 15 Dozen Small Glasses at Rs. 18 per dozen.

We assure you of our best services.

Yours faithfully,

Enquiry for Holiday Accommodation

Dear Sir,
Mr. & Mrs. Akram, who tells they spent a very happy fortnight with you last summer, has recommended your hotel to me. I am planning to bring my family to Murree for two weeks between mid-October and the end of November and hope you will be able to accommodate us. We require one double room and two single rooms. There will be my wife and myself, our son aged twelve and daughter aged fifteen.

Our holiday arrangements are fairly flexible and any two consecutive weeks within the period mentioned would suit us. As I wish to complete the holiday arrangements in good time it would be most helpful if you could give me an early reply.

Yours faithfully,

Reply

Dear Mr. Amjad

Thank you for your letter of August 15, 2004. I remember Mr. & Mrs. Akram very well and should like to thank her for his recommendation. We are well booked for October and November 2004, but the flexibility of your arrangements enables us to offer you the accommodation. You acquire, namely one double and two single rooms, but only for the two full weeks from 15th October 2004. After 30th October 2004 we are fully booked to the middle of November.

We look forward to welcoming you to Murree and assure you that everything possible will be done to make your fortnight's stay a very happy one.

Please be good enough to send us written confirmation of this booking not later than next Saturday. Meanwhile, we are provisionally reserving accommodation for you.

Yours sincerely,

Enquiry

Dear Sirs,

We understand that you manufacture a wide range of cosmetic products. We shall be glad to stock and sell your products if you could agree to display them in one of your show windows.

Our store is a large one and we fairly well established in business. If the quality and prices are satisfactory, there are prospects of good sales here. Please send us your quotation for the full range of your products.

Yours faithfully,

Reply

Dear Sirs,

We are obliged to your enquiry of 30th May 2004 and are pleased to enclose a wide selection of priced patterns of good and medium quality.

As our two firms have done business with each other for so many years, we should like to grant your request to lower the prices of our garments. But there are difficulties. Our own overheads have risen sharply in the past twelve months and to reduce the prices by the 15% you mention could not be done without considerably lowering our standards of quality. This is something we are not prepared to do. Instead of 15% reduction in the prices of our garments, we suggest

a reduction of 5% orders for Rs. 10,000 or more. On orders of this size we could manage to make the reduction without lowering our standards.

We hope you will agree to our counter-suggestion and look forward to receiving regular orders from you as in the past.

Yours faithfully,

Reply

Dear Sirs,

We thank you for your letter of June 15, 2004, and have pleasure in sending herewith a copy of our latest catalogue and price list. We need hardly add that we are makers of quality leather belts for the last twenty years and despite competition, our products stand first in sale.

To cover a part of the sharp increase in the prices of leather during the past twelve months, we have slightly increased our pries this year. You will certainly feel that the increase is justified in view of the conditions prevailing in the market. As regard trade terms, we may state that our list prices are subject to a trade discount of 20% and an additional commission of 20% will be allowed in case your annual purchases from us exceed Rs. 100,000.

We now await your order, which as usual will receive our most careful consideration and prompt attention.

Yours faithfully,

Enquiry

Dear Sirs,

We learn that you are producing good quality hand made shoes and gloves in pure hide and other natural materials. There is a steady demand here for high-class goods of this type, especially in bright colors. Sales are not high, but a good price can be obtained for fashionable designs.

Will you please send us your catalogue and full details of your prices and terms of payment, together with any samples you can let us have.

We look forward to hearing from you.

Yours faithfully,

Reply

Dear Sirs,

Your enquiry of April 9 2004, which we welcome, is receiving our attention, and we thank you for your interest in our products.

A copy of our illustrated catalogue will be sent to you today, together with a range of samples of various skins used in the manufacture of our gloves and shoes. We think the colors will be just what you want for the fashionable trade, and the beauty and elegance of our designs, coupled with superb workmanship, should appeal to the discriminating buyer.

Our representative, Mr. Javed, will be in Lahore next week and he will be pleased to call on you with full range of samples of our hand-made lines. He is negotiating a contract.

It will be a pleasure to server you.

Yours faithfully,

Enquiry

Dear Sirs,

Miss. Saima of Messrs Saima & Company of this city has mentioned your name as manufacturers of shawls to us. As we intend to buy a considerable number of shawls for the coming writer, we would request your catalogue together with quotations for large quantities, the time you would require for delivery and the conditions of payment.

We trust you will quote the lowest price possible.

Yours faithfully,

Reply

Dear Sirs,

We thank you for your enquiry of April 30, 2004 and have great pleasure in sending you our samples and price list. We can quote you 20% less than the catalogue prices for shawls of all designs and qualities, 2% extra for prompt cash, free on rail.

Our shawls are characterized by attractive designs, fast colors, exquisite finish and durable texture. The samples exactly represent the qualities of our products.

We believe our quotations will suit you, and you will soon place orders with us.

Yours faithfully,

Enquiry

Dear Sirs,

Please quote us on the following ready-made garments.

1. 12 Dozen KT shirts of all sizes in assorted colors.
2. 15 Dozen worsted pants in different sizes and shades.
3. 4 Dozen woolen dressing gowns of superior quality.

These articles are to be suitably packed and dispatched by passenger train.

A prompt reply giving your lowest quotations and the exact date of delivery will be much appreciated.

Yours faithfully,

Reply

Dear Sirs,

Thank you for your letter of May 1, 2004. Here are our lowest quotations for the ready-made garments you require:

1. KT shirts of all size in assorted colors @ Rs. 360 a dozen.
2. Worsted pants in different sizes and shades @ Rs. 960 a dozen.
3. Woolen dressing gowns of the first quality @ Rs. 150 per piece.

You will be glad to learn that we can arrange prompt delivery and can dispatch the garments just a day after we receive your order.

You may know perhaps that the three items in which you seem to be interested are considered to be our specialties that have captured the market both on account of their competitive prices and the superior quality of their stuff. You may not, therefore, hesitate to place your order even for quantities larger than those mentioned in your letter.

We assure you that your order will have our best attention.

Yours faithfully,

Enquiry

Dear Sir,

In response to persistent demand from our customers we would like to stock your Royal Cycles. As you know, we have been selling these cycles for the

last five years. Would you have let your quotations for at least nine dozen Royal Cycles with your terms for trade discount and transport, etc?

The business at our end is very brisk, and if our customers like your cycles we are likely to place another order within three or four months.

Yours faithfully,

Reply

Dear Sirs,

Thank you very much for your letter of May 1, 2004, we were pleased to learn that your customers have developed a liking for our Royal Cycles, but we were not surprised because these cycles are made of quality steel.

Considering the quality of our cycles, we are unable to charge less than the rates indicated in the enclosed price list. But in view of the fact that you are our old customer, and we wish to promote the sale of our cycles and except bulk orders from you, we are prepared to allow you a discount of 5% if the payment is made within seven days of the date of delivery. This offer will be open for one month only beginning from the date of this letter.

Yours faithfully,

Oral Presentation

You may be asked on occasions to present your reports orally and to take part in meetings, conferences, panel discussions and seminars. If you are an effective speaker, you will enhance your prestige, influence decisions and come to occupy more important positions in your organization. In fact, skill in oral presentation is important equipment for life. The advice Shakespeare gave more than 360 years ago is still valuable and worth remembering:

Mend your speech a little
Lest it may mar your fortune

What was said earlier about effective writing applies equally to oral presentation. Therefore we shall discuss only those factors, which are peculiar to oral communication.

Physical Appearance

In face-to-face interaction a person does not communicate only though words. His whole personality his general, bearing facial expression, posture and gestures is involved in the process. A neatly dressed man with a pleasant expression will find it easier to establish rapport with others and put them a proper receptive mood. Once you are able to secure the attention of the audience, more than half the battle is won.

Posture

When you are called upon to speak, walk sprightly and stand at ease. Keep your hands or the sides and note cards on the lectern. Do not fidget, but try to feel relaxed. While speaking, use your hands for appropriate gestures but there should be no peculiar flourishes. If a microphone is being used, keep yourself eight to ten inches away to ensure proper transmission of voice.

Do not worry if you are a little tense. Few in the audience will notice your tenseness if you avoid awkward gestures. Rely on the good manner of the audience. After a few minutes you will be able to feel at home and develop confidence, and the going will be easier.

Eye Contact

Eve contact is one of the most immediate and effective means of establishing report with an audience. Look over your audience and pause for a while before

you say anything. To start speaking as soon as one reaches the dais shows lack of poise and creates a poor impression on the audience. In fact, throughout your talk make use of frequent and slight pauses. These will help you break your ideas into small units and give the listeners necessary time-gaps to absorb one idea before you pass on to the next. If sometimes your pauses are a bit longer, do not panic. Nobody expects you to memorize speeches. Moreover, to a speaker, the length of a pause always appears to be greater than it actually is.

While speaking, maintain eye contact wit the audience, looking form one pair or eyes to another around the room. To look at the ceiling or outside the room through a window or at one section of the audience is a sign of rudeness. If the listeners feel that you are ignoring them, they are also likely to ignore you and what you say. Further, through eye contact you get the signal whether the channel of communication is open, and get the feedback how the listeners are reacting to what you are saying. If you listeners do not meet your eyes, they are probably not concentrating on your talk. Then it becomes necessary for you to change your approach to win their attention.

Voice

You must know to use your voice properly, if you wish to become an effective speaker. A good voice is a gift of nature but anyone can improve the quality of his voice with proper training. On every occasion when you have to speak, remember the following: -

1. Variation in the pitch and tempo of the voice is essential to convey your message. A speech delivered in a monotone will only bore and send the audience to sleep.
2. Fast delivery betrays a lack of confidence. Speak at a rate your audience can understand you. Normally, you should speak about 125 to 150 words per minute, and check your speed to try to bring it within this range.
3. Pronounce words properly, putting stresses at the right place.
4. Speak with enough volume so that everyone in the audience can hear you clearly.
5. Avoid canalization and vocalized pause such as ‘er’ ‘ah’ ‘unh’ ‘um’ etc. Take care that you do not repeatedly use such phrases as you see I mean what I meant do you understand? Is it clear? Etc.

Audience

Before you begin your talk, size up your listeners their age, sex, background and interest. In most cases you will know beforehand who will constitute the audience.

But even if you do not, a quick glance will enable you to sense whether they are a group of friendly or hostile people, whether their eyes are lit with eager expectation or they have been huddled into the room against their wish and are sitting with a look of ennui on their faces.

A lot of common sense is required to become a good speaker. Use it to choose a suitable approach to your audience. In most cases if you speak directly, you will be listened to. Try to converse with them. Each listener should feel you are talking to him individually. No verbal fire works are necessary to arrest attention. Instead, speak with conviction and sincerity about their immediate interest and something with which they are familiar and you will in all probability be able to lure them into listening. If the subject is drab, give it a personal touch. If necessary, dramatize certain ideas to break the barriers of communication. However, do not be too dogmatic; instead, give the impression that you wish to share your views and ideas with the audience.

Another way to awaken an audience is to relate a joke. However, the effect of a joke depends on how you relate it. Try it first on friends, in smaller groups. If you do not get the expected response, drop it. Build it into the body of your speech in such a way that it appears to be a part of it and the audience receive it almost unprepared. Humor arising form personal anecdotes is perhaps the best. Some in the audience may have had similar experiences and they will quickly identify with you when you relate such a joke.

If you notice a listener smiling or whispering to a neighbor, do not feel disturbed. Nor presume that he is criticizing you. He may, in fact, be expressing his admiration for you. However, the best thing is to concentrate on ideas, on what you wish to communicate rather than on whether you are making a good impression.

Preparation

The art of speaking is the reward of persistent effort. There is no magic formula to make you an effective speaker. Adequate planning and preparation are essential for a presentation. In fact, thorough preparation is the best antidote for nervousness. As far as possible do not read out a written speech word for word. A written speech seldom sounds fresh or vigorous. Do not memorize it either. The delivery of such a speech will not allow the necessary animation and spontaneity. Your presentation will lose flexibility and communication will suffer. Face to face interaction demands thinking and speaking and not a mere repetition of what you have learnt by rote.

However, if an extremely complex subject (e.g. a research paper for a seminar) is being presented to the members of a professional body, you may read the written material. But even here you should acquaint yourself with the material thoroughly. While reading, you should be able to lift your head and look at the audience after short intervals.

For most speaking situations, you should prepare adequate notes for consultation. The points should be arranged in the order in which you propose to present them and should have appropriate headings and sub-headings. You may cite references, quotations, and names, illustrations that you wish to use. Some speakers also write the introductory and closing remarks. If you think it necessary, indicate in the margin for your personal use the time that you are going to devote to each item. It is frustrating to hear a 25-minute introduction to a 50-minute talk.

You should consider yourself adequately prepared if on reading the notes you can quickly recall what you have to say on each item. Consult the notes frequently when you are speaking. There is no need to conceal the fact that you are consulting the notes. In fact, this may create a feeling among the listeners that you have taken pains to prepare for the occasion. A positive attitude will be generated and you will be listened to with respect.

Visual Aids

It has been estimated that 11 percent of what we learn is through hearing, 83 percent through sight and the rest through the other three senses. Hence visual aids can make your presentation more effective. The listeners usually feel stimulated and take more interest in what is being presented. Your explanation with the use of aid can become more vivid and easily understandable. Some of the aids, which can serve you well, are maps, pictures, charts, motion pictures, sides and overhead projectors and a blackboard. Your choice will depend upon your topic, audience and the availability of the aid. But remember that too many aids may cripple the effect. To get best results you should keep a few basic facts in mind.

1. Integrate the aid with the oral presentation and use it when you reach the relevant points.
2. If possible, keep the chart, picture or map hidden or at an inconspicuous place until you need to refer to it.
3. When in use, the visual and should be displayed where everyone in the audience can see it. If necessary, examine the room beforehand and decide on the arrangement.
4. Interpret it to the listeners and draw their attention carefully to what you want them to note.
5. Stand on one side and use a pointer, if necessary, while interpreting it.

6. The aid should be sharp; emphasize only those aspects, which you consider significant. Do not clutter in with too much information.
7. If there is a blackboard behind you, see that it is clean. Write on it rapidly and legibly in large letters. Keep speaking while you write, if the entry is long. After you have finished writing, face the audience as you review or discuss the material. Erase entries, which are no longer, required, and use colored chalk for emphasis, if necessary.

Telecommunications

Telegrams, Telex and Fax

In the modern world of business, speed is often the key factor in communication. In the age of moment-to-moment developments and extreme competition, one must move very fast. Quotations, offers and proposals have to reach the recipient before some competitor may catch him. Besides courier services and telephones, telegrams and telex have been in use. In recent years scientific technology has provided the business world with the magic of fax facsimile transmission. One does not know what miracle the future will bring.

Telegrams

In recent years the use of telegraphic message in business has declined. However, there are occasions and places where telegrams are still used. As the charges for telegrams are based on the number of words in the message, it must be as short as possible. This has given rise to an English language different from the normal English. In this telegraphic English, much liberty is allowed regarding verbs, prepositions, articles, sentence structure, etc.

As first a telegraphic message should be prepared in ordinary, general language. Then unnecessary words should be removed and lengthy expressions and phrases should be replaced by short and brief words. Use of abbreviations can help a lot to shorten the message, e.g. At this time……….now, due to the fact that………..because, from the point view of………as, in due course…soon, in most cases………..usually, in some cases…………….sometimes, in many cases……….often, in the event of……….if in the matter of… about, make an effort…try, we are unable to ………we cannot, as letter is in the mail…a letter follows.

Layout for Telegram

Telegram	**Spaced Capitals**
May 5, 2004	Date of Issue
Miss. Saima	Recipient’s name
Popular Traders	and address
New York, USA	
OUR ORDER 26B DATED 3 MAY	Body written with capital

December Stop please delivers OF	**LETTERS USE OF STOP INSTEAD**
To Faisalabad dry port STOP	**PUNCTUATION MARK FULL**
AL-FAISAL FASHION STORE FAISLABAD	Name of sender and company
Sender MUJAHID General Manager Al-Faisal Fashion store Faisalabad (Pakistan)	 Sender's name and full address (not to be telegraphed)

Telex

In spite of increasing use of fax, telex is still a useful way of sending urgent printed messages to difficult parts of the world. Charges in telex are based on the period of time the two parties are connected and not according to the number of words used in the message. However, as telex is an expensive medium, the message should be kept concise and to the point. At the same time, it should retain clarity and courtesy. Like telegrams, printed forms (supplied by the post office) are used for telex message. Therefore, the message should be prepared on the following layout.

TELEX MESSAGE	Spaced Capitals
MAY 9, 2004	**DATE OF ISSUE**
1230 hours	Time prepared
Mr. Dilawar Popular Biscuits 78- Industrial Area, Kasur	Recipient's name and address
Telex number NSP 104	Telex number
ATTENTION MR. BILAL WE WISH TO REMIND YOU THAT WE HAVE NOT RECEIVED OUR ORDER 104/10 WOULD APPRECIATE IMMEDIATE DELIVERY CONFIRM	Body use capitals throughout with normal punctuation, include attention line
AMJAD ALI **BISCUITS STORE PAKISTAN**	Sender's name/title/company **as appropriate**

Fax/Facsimile Messages

Latest scientific technology has introduced a new medium of rapid communication known as fax. Speed and versatility have made fax popular method of communication in business world.

Fax receives and transmits locally, nationally or internationally written/typed message, maps, graphs/charts and photographs. The whole document can be transmitted within seconds. The receiver gets the message as if he is getting a carbon/photocopy of the original. Fax is becoming the most popular means of instant written/printed communication.

For fax messages many companies are using modified letterhead such as:

Saima Industries
100-Defence, Lahore.
Fax: 4953940

Fax Message

To ……………………………………….……
Company………………………………..…..
From………………………………………..
Date ………………………………………..
Fax No……………………………………..
No. Of pages……………………………….
Message……………………………………

Transportation

Marketers need to take an interest in their company's transportation decisions. The choice of transportation carries affects the pricing of products, delivery performance and condition of the goods when they arrive all of which will affect customer satisfaction.

In shipping goods to its warehouses, dealers, and customers the company can choose among five transportation modes rail, water, truck, pipeline, air.

Rail: Although railroads lost market share until the mid 1970s, today they remain the nation's largest carrier, accounting for 37 percent of total cargo moved. Railroads are one of the most cost-effective modes for shipping large amounts of bulk products coal, sand, farm and forest products over long distances. In addition, railroads have recently begun to increase their customer services. In addition, railroads have recently begun to increase their customer services. They have designed new equipment to handle special categories of goods, provided flatcars for carrying truck trailers by rail (piggyback), and provided in transit services such as the diversion of shipped goods to other destinations en-route and the processing of goods en-route. Thus, after decades of losing out to truckers, railroads appear ready for a comeback.

Trucks: Trucks have increased their share of transportation steadily and now account for 25 percent of total cargo. They account for the largest portion of transportation within cities as opposed to between cities. Each year in the United States, trucks travel more than 600 billion miles equal to nearly 1.3 million round trips to the moon carrying 2.5 billion tons of freight. Trucks are highly flexible in their routing and time schedules. They can move goods door-to-door, saving shippers the need to transfer goods from truck to rail and back again at a loss of time and risk of theft or damage. Trucks are efficient for short hauls of high value merchandise. In many cases, their rates are competitive with railway rates, and trucks can usually offer faster service. Trucking firms have added many services in recent years. For example, Roadway Express now offers satellite tracking of shipments and sleeper tractors that move freight around the clock.

Water: A large amount of goods is moved by ships and barges on U.S coastal and inland waterways. Mississippi River barges alone account for 15 percent of the freight shipped in the United States. On the one hand, the cost of water transportation is very low for shipping bulky, low value, nonperishable products such as sand, coal, grain, oil and metallic ores. On the other hand, water transportation is the slowest transportation mode and is sometimes affected by the weather.

Pipeline: Pipelines are a specialized means of shipping petroleum, natural gas, and chemicals from sources to markets. Pipeline shipment of petroleum products costs less than rail shipment but more than water shipment. Most pipelines are used by their owners to ship their own products.

Air: Although air carriers transport less than 1 percent of the nation's goods, they are becoming more important as a transportation mode. Air freight rates are much higher than rail or truck rates, but air freight is ideal when speed is needed or distant markets have to be reached. Among the most frequently air freighted products are perishables (fresh fish, cut flowers) and high value, low bulk items (technical instruments, jewelry). Companies find that air freight also reduces inventory levels, packaging costs, and the number of warehouses needed.

Until the late 1970s, routes, rates, and service in the transportation industry were heavily regulated by the federal government. Today, most of these regulations have been eased. Deregulation has caused rapid and substantial changes. Railroads, ships and barges, trucks, airlines, and pipeline companies are now much more competitive, flexible, and responsive to the needs of their customers. These changes have resulted in better services and lower prices for shippers. But such changes also mean that marketers must do better transportation planning if they want to take full advantage of new opportunities in the changing transportation environment.

In choosing a transportation mode for a product, shippers consider as many as five criteria. Thus, if a shipper needs speed, air and truck are the prime choices. If the goal is low cost then water or pipeline might be best. Trucks appear to offer the most advantages a fact that explains their growing share of the transportation market.

Thanks to containerization, shippers are increasingly combining two ore more modes of transportation. Containerization consists of putting goods in boxes or trailers that are easy to transfer between two transportation modes. Piggyback describes the use of rail and trucks, fishy-back, water and trucks, train-ship, water and rail and air-truck, air and trucks. Each combination offers advantages to the shippers. For example, not only is piggyback cheaper than trucking alone, but it also provides flexibility and convenience.

Chapter 7

Assets & Costs

- *Introduction to costs*
- *Cost behavior*
- *Flow of cost*
- *Cost accumulation method*
- *Process cost accounting*
- *Definition of assets*
- *Types of assets*
- *Assets depreciation*
- *Assets liquidity*

Definition, Nature & Scope of Cost Accounting

History of Cost Accounting

Cost accounting is an essential part of accountancy, which has been developed to meet the managerial needs of business and other organizations, which incur costs. The principles involved are not entirely new, there is evidence that the Sumerians in Mesopotamia practiced costing in 3000 B.C and it was certainly well developed in Florence in middle Ages. It is reasonable to suppose that many people at different times have practiced a measure of cost accounting. If only to ascertain prices to be charged to customers for different types of products. Simple analysis of cost processes, departments and products is not, therefore, a new concept.

It is only since the commencement of the Industrial Revolution in 1780, that a wide spread interest in cost accounting has developed. This development was promoted by necessity, as vast quantities of diverse products were produced by complicated and sometimes alternative methods. Even so it was not until the First World War that cost accounting became fully accepted and began to grow and develop techniques, which we accept as obvious today.

Several factors combined to produce this remarkable growth. The production of war equipment involved “Cost-plus” contracts where the control and justification of costs was called in question by the government. Price control upon goods and services were imposed by many governments, any submission for adjustment having to be supported by accurate facts and figures. Competition, particularly in export markets, created a necessity to analyze costs so as to price the end product competitively, or to ensure that costs did not exceed a market price, which was often economically determined. These factors, plus the ever-increasing scale of business operations, have ensured that virtually no organization is without some form of cost accounting system.

Cost Accounting System

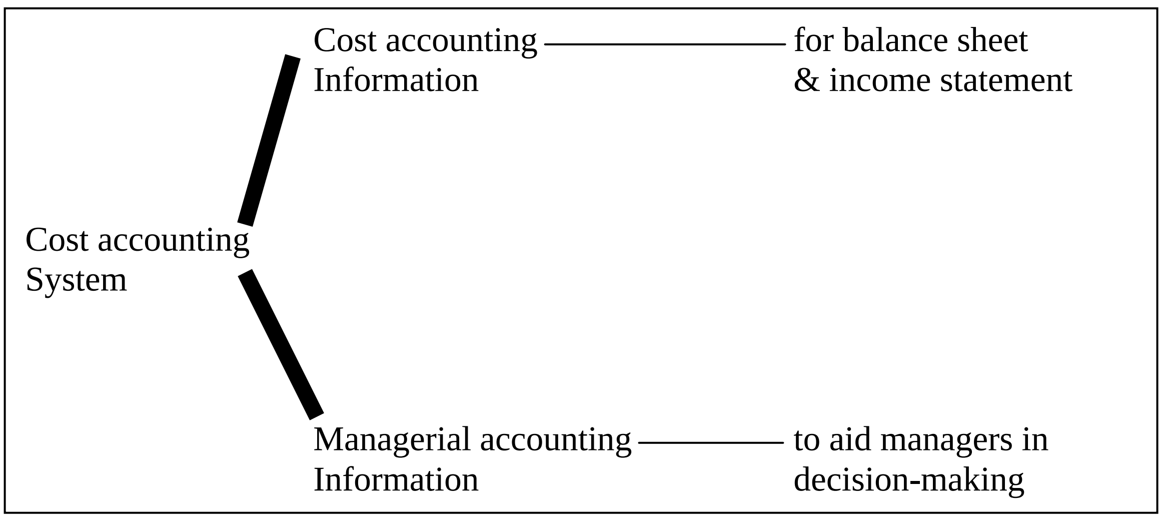
A cost accounting system is used to record, summarize, and report cost information. Some cost information is reported in income statement and balance sheet, which are presented to external users such as shareholders and creditors. Other cost information is given in special reports to managers within the firm for use in deciding how to operate the organization. Those decisions are simply the choices managers make about their organizations should do things.

Providing information to managers to assist them in making decisions is the part of accounting called managerial accounting or management accounting. When we

use the term "management accounting" we mean data prepared specially for managers within the organization to help them make the decisions or choices, which are needed for their part of the organization to achieve its objectives. But a cost accounting system provides cost data for both cost accounting and managerial accounting. When comparing with financial accounting, managerial and cost accounting can be called the same.

Cost accounting systems were developed many years ago to meet the needs of cost information for income statement and balance sheets. Only later did the development of more complex organizations demand that cost information also be collected and reported for management decisions. Cost accounting systems have evolved so that today they provide cost information for both cost accounting (for income statement and balance sheet) and managerial accounting.

The kind of information provided has also expanded so that in addition to cost information it may include sales and production information in Rupees and units.



Managerial accounting is concerned with providing information to managers that is, to those who are inside an organization and who are responsible for directing and controlling its operations.
Because it is manager oriented, some understanding of the management process and the organizations in which manager's work must precede any study of managerial accounting.

Organization

An organization can be defined as a group of people united for some common purpose. A bank providing financial services and a manufacturing firm providing appliances or other products for customers. An organization consists people, not physical assets. Thus, a bank building is not an organization, rather, the

organization consists of people who work for the bank and who are bound together for the common purpose of providing financial services.

The common purpose towards which the organization works is called its objective. The objective of all the organizations may not be the same. For some organizations the objectives is to produce products and earn profit. For others it may be to provide humanitarian services (like Abdul Sattar Edhi Welfare Trust), or to provide government services as a electricity department.

The Work of Management

The work of management centers on what is to be managed essentially a manager has to perform following four functions.

- Planning
- Organizing and Directing
- Controlling
- Decision Making

Planning

In this phase the managers outlines the steps to be taken to achieve the objectives of the organization. These plans will be very useful in achieving the preset targets. These plans will be both long and short term in nature. For example in Saima Textile Mills, after developing a strategy, the series of specific plans will be set up such as hours of production, store location, method of financing customer purchasing, discount policies.

Organizing

In organizing, managers decide how to make the efficient use of organization human and other resources to achieve the stated objectives.

Directing

In this phase the managers' looks after the day-to-day activities and keep the organization functioning smoothly. Employees are vested with different tasks to perform and managers are responsible for the positive direction of their work.

Controlling

In this phase the managers take those steps, which are essential to make rectify and find the variations from the pre-established standards and paths.

Decision Making

In decision making managers attempt to make a choice among alternatives.

Cost Accounting Definitions

Cost accounting may be defined in different ways, but in correct meaning it may be defined “cost accounting consist of certain rules and condition which are an extension of general or financial accounting”.

J.W. Neuner has defined cost accounting as: -
“Cost accounting is an expended form of general or financial accounting of a business concern which provides to management promptly cost of producing or selling of each product or rendering a particular service”.

According to J. Batty: -
Cost accounting is the comprehensive term used to describe the principles, conventions, techniques and systems, which are employed in a business to plan and control ion detail the utilization of its resources.

According to C.J Walker: -
The application of accounting and costing principles, methods and techniques in the ascertainment of costs and the analysis of saving and excess as compared with previous experience or with standards.

According to Ralph S. Polimeni and James A. Cashin: -
Cost accounting is the process of identifying, summarizing and interpreting information needed for cost of manufacturing a product or rendering a service.

Cost accounting is the process of identifying, summarizing and interpreting information needed for:

- Determination of cost of product
- Planning and control
- Management decisions

These definitions suggest that the subject falls into a number of categories, which may be summarized as follows.

Determination of Cost of product

To determine what amount has been spent to manufacture a particular product or rendering a service, i.e. how much labor and factory overhead cost is incurred to convert raw material into finished form or what is the cost of serving a particular person or group of persons.

Planning & Control

To set a predetermined cost or production and see that the actual results meet with the standards set or not and if not what are the causes of this variance. Suppose Saima Company wants to manufacture 100 shirts of a particular size; they estimate the cost per shirt will be Rs. 400, but actually the cost amounted to Rs. 425 after completion. To set the approximate price at Rs. 400 is planning, to determine the variance of Rs. 25 and suggest causes and measures to reduce or eliminate the variance is control.

Decision Making

- To choose among alternatives to attain the stated objectives
- To decide whether to continue a product or shut down
- To buy a particular product from the market or manufacture it in own planet

Principles

Cost accountancy grew out of the needs of businessmen to know in detail the costs involved in producing goods and services. Many of the principles observed have developed as part of management and, therefore to be applied with success cost accountancy should provide managers with information required for planning, control and decision-making. Examples of management principles, which are an integral part of cost accountancy, are as follows: -

- Specialization is necessary in any business of reasonable size.
  This lead to the functional breakdown of the business and the establishment of “Cost Centers” and “Responsibility Accounting”

- Costs represent economic sacrifices, whereas losses are waste.
  Management should be concerned with the conversion of resources with the minimum of waste. Cost accountancy gives formal recognition to this principle.

- Authority and responsibility should go together.
  The responsibility for costs should be made clear all concerned and any necessary authority to incur expenditures should be given to those who are expected to control.

- Corporate planning requires a clear statement of objectives.
  What a company is going to produce and sell, together with the means of achieving these objectives, should be stated by the board of directors.

Predetermined costs allow plans to be made and, therefore, objectives to be stated, in specific terms. Without the breakdown of costs into their main elements there would be considerable difficulty in understanding the nature of the objective.

Conventions

Conventions in this sense are principles or rules, which have derived or emerged from the recommendations of professional bodies (like ICMA, ICWA), from agreement amongst accountants or form the observations of writers, practicing managers and accountants.

Techniques and Systems

Cost accounting, is concerned with the methods, techniques and systems employed to achieve desired objectives. The methods used for controlling labor time-clock cards, time recorders, time sheet and the procedure followed, are all examples.

There is a convention of terminology, which makes distribution in the terms used.

a. Costing Systems

The main costing system, such a job costing and process costing are regarded as systems.

b. Costing techniques:

A technique is a set of procedures or methods for achieving stated objectives, which don’t necessarily constitute complete system. For example, job costing may be employed as the principal system of cost accounting, but marginal costing may also be used to allow costs to be controlled more effectively and for decision-making. Therefore marginal costing is regarded as a technique, which is imposed upon the main costing system.

c. Costing methods or procedures

Systems and techniques, are composed of many “Steps”, in material control, for example, material requisition have to be completed, priced, extended, and then posted to the stores ledger. To overall accounting for material consists of established ways of conduct, which collectively are regarded as methods or procedures.

Nature of Cost Accounting

Cost accounting is not a new accounting system, nor does it introduce any new accounting principals. In fact, cost accounting consists of certain rules and conventions, which are an extension of financial accounting. In the words of John. J.W Neuner "cost accounting is an expanded phase of the general or financial accounting of business concern, which provides management promptly with the cost of producing or selling each article or of rendering a particular service".

Fields of application of cost accounting

Basically cost accounting relate with manufacturing operations. In this field cost accounting has reached its highest development, and its valuable and well-proved services to manufacturing concerns simply justify this association.

In addition to its use in the manufacturing operations, another useful area of its application is the field of marketing and administration. In this field the work done is of comparatively recent origin and has not been developed to the same degree of refinement as in the manufacturing field. Much work investigation and research into procedures and methods in this area are currently being observed. In short, procedures and techniques developed by cost accounting have been found useful in the field of banking, insurance, public utilities, motor trucking, departmental stores, municipalities, hospitals hotels and educational institutions. And even in professional offices, such as doctors, lawyers, accountants and teachers. Briefly speaking that cost accounting has play an important and useful impact on manufacturing and on a vast area of life.

Scope of Cost Accounting

The scope of accounting is very wide and includes the following: -

a. Cost Ascertainment

It deals with the collections and analysis of expenses, the measurement of production of the different products at the different stages of manufacturing and links up the production with the expenses. In fact, the varying procedures for the collection of expenses give rise to different systems of costing as historical or actual costs, estimated cost, standard costs etc. Again the varying procedures for the measurement of production have resulted in different methods of costing as specific order costing, process costing (unit costing). For linking up of production with the expenses the different techniques of costing such as marginal cost technique, the total cost technique, direct cost technique etc have been evolved.

All the three systems, methods and techniques can be used in one concern simultaneously.

b. Cost Accounting

It is the process of accounting for cost, which begins with recording of expenditure and ends with the preparation of statistical data. It is formal mechanism by means of which costs of products or services are ascertained and controlled. Cost can be ascertained either by following the historical or predetermined system of costing. Costs can be predetermined either by standard costs or estimated costing. If the cost and financial accounts are kept separately then their reconciliation is also to be done in order to verify the accuracy of both sets of accounts.

c. Cost Control

Cost control is the guidance and regulation by executive action of the costs of operating an undertaking. It aims at guiding the actual towards the line of targets; regulates the actual if they deviate or vary from the targets; this guidance and regulation is done by an executive action. The cost can be controlled by standard costing, budgetary control, proper presentation and reporting of cost data and cost audit.

d. Budgetary Control

Budget is any plan expressed in monetary terms. It is the establishment of budgets relating to the responsibilities of executives to the requirement of a policy and the continuous comparison of actual with budgeted results to secure basis for revision.

Purposes of Cost Accounting

- ❖ To enable management to get as for as possible the exact cost of goods manufactured, or services rendered under different circumstances using different techniques and systems of costing.

- ❖ To furnish necessary facts and figures for adequate and effective managerial control by setting standards for material, labor and manufacturing overhead.

- ❖ To provide management data necessary to determine cost volume relationship to decide whether to close or operate at a loss, whether to manufacture or buy from the market, whether to continue the existing method of production or to replace it by a more improved method of production etc.

Functions of Cost Accounting

Following are main functions of cost accounting.

1. To ascertain the cost per unit of the different products manufactured by a business concern.

2. To provide a correct analysis of cost by process or job and the different elements of cost.

3. To disclose sources of wastage whether of material, time or expenses or in the use of machinery and equipment and to prepare such reports which may be necessary to control such wastage.

4. To provide requisite data and serve as a guide to price fixing of products manufactured or services rendered.

5. To ascertain the profitability of each of the products and advise the management as to how these profits can be maximized.

6. To exercise effective control of stock of materials, work in process, finished goods in order to minimize the capital blocked up in these stocks.

7. To reveal sources of economy by installing and implementing system of cost control for material, labor and manufacturing overhead.

8. To advise management on future expansion, policies and proposed projects.

9. To present and predict data for management planning, decision making and control.

10. To help in preparation of budgets and implementation of budgetary control.

11. To guide management in formulation and implementation of incentive bonus plans based on productivity and cost savings.

12. To organize the internal audit system to ensure effective working of different departments.

13. To organize cost reduction programs with the help of different departmental managers.

14. Accumulation and utilization of cost data for control purposes to have the minimum possible cost consistent with maintenance of quality. This objective is achieved through fixation of targets, ascertainment of actual, comparison of actual with targets, analysis of reasons of deviation between actual and targets and reporting deviations to the management for taking corrective actions.

15. To provide specialized services of cost audit in order to prevent the errors and frauds and to facilitate and reliable information to the management.

Importance of Cost Accounting

The importance of cost accounting may be considered under the following points:

1. Planning

Planning is thinking in advance, i.e. looking ahead and deciding in advance what to do, how to do, when to do it and who is to do it. In planning, management is concerned with laying down objectives and determining the courses of actions to be followed out of the several alternatives available to achieve those objectives. Thus, planning is concerned with future activity and formulates budgets to meet the objective of the organization.

2. Decision Making

Since management has to make choice of one course of action out of the several alternative courses of actions available, in involves decision-making. All rational decisions are based on accounting information. Decision may relate to various problems like:

- ❖ Fixation of price,
- ❖ Whether or not price should be reduced for increased levels of sales;
- ❖ Whether change in production should be followed; whether or not factory should operate at full capacity;
- ❖ Determination of the most profitable levels of production; whether to make or buy a spare part.

3. Controlling

Controlling is that part of the management activity whereby managers compare actual performance against the planned performance, find out the deviations and take remedial steps to remove the deviations. Immediate action should be taken to remove the deviations to make an improvement in the performance because

promptness is the essence of effective control. Thus, control helps correction. Planning and controlling are inter linked with each other because a manager cannot control unless he has planned a course of action.

Difference between Financial Accounting and Cost Accounting

S. #	Financial Accounting	Cost Accounting
1	It provides information about the business in general way. It tells profit and loss and financial position of the business.	It provides information to the management for proper planning, operation, control and decision-making.
2	It provides information to owners & other outside parties, like banks, prospective investors and financial institutions.	The information is provided to managers to be used in business.
3	The accounts are maintained in such a way as to meet the requirement of corporate law.	The accounts are generally kept to meet the requirement of management. But there is no corporate obligation for such.
4	It classifies, records and analysis the transactions in subjective manner i.e. according to the nature of expenses.	It records the expenditure in an objective manner, i.e. according to the purpose for which these costs are incurred.
5	It lays emphasis on the recording aspect without attaching any importance to control.	It provides detail system of control for material, labor and factory overhead costs.
6	It reports operating results and financial position usually at the end of the year.	It gives information through cost reports to management as and when desired.
7	Financial accounts are the accounts of whole business. They are independent in nature and disclose the net profit or loss of the business as a whole.	Cost accounting is only a part of the financial & discloses profit or loss of each product, job or service.
8	The costs are reported in aggregate in financial accounts.	The cost is broken down in a unit basis in cost accounting.
9	Financial accounts relates to the commercial transactions of the business and include all expenses via, manufacturing, office, selling etc.	Cost accounts relate to transactions concerned with the manufacture of goods and services and include only those expenses, which enter into the production.
10	Financial accounts relate to the	Cost accounts are concerned with

	commercial transactions i.e. transactions between the business concern and third parties. These transactions from the basis for payment or receipt of cash.	internal transactions, which do not form the basis of payment of receipt of cash.
11	Monetary information is only used.	Non-monetary information like units is also used.
12	Financial accounts deal mainly with actual facts and figures.	Cost accounts deal partly with facts and figures and partly with estimates (budgets).
13	Financial accounting does not provide information on the relative efficiencies of various workers, plant and machinery.	Cost accounts provide valuable information on the relative effectiveness of various workers, plants and machinery.

Advantages of Cost Accounting

The main advantages of a sound cost accounting system are discussed below:

Ascertainment of Cost

The chief purpose why cost accounts are maintained is to ascertain cost and this is their main advantage. It will be noticed that financial accounts merely disclose tire total cost incurred in producing aggregate output, and that too at the end of the financial period. But cost accounts reveal cost per unit, cost at different stages, as also the various components of cost like fixed and variable costs or direct and overhead cost. Specifically, these advantages are as follows.

1. Determination of cost per unit or job

Cost accounts disclose the cost per unit or per job contract. This information is usually not disclosed by financial accounts.

2. Determination of cost at different stages of production

If production passes through several processes or if it is divided in to separate departments cost accounts further reveal the cost of each process or department and the cost at the end of each process. This analytical view of cost is some times very useful and important.

3. Disclose of the constituents of costs

Cost accounts also disclosed the various constitution of cost, so that they can be grouped appropriately to yield valuable information. Usually, the element of cost are divided in prime cost and overhead. Prime cost is fixed cost whereas overhead of supplementary cost is variable cost.

4. Usefulness of cost date

Through cost accounts disclose cost per unit or at different stages of production, yet their maintenance will only be a waste of money and efforts unless this information (i.e. the cost data) can be put to some useful purpose. The mere knowledge of what it costs to produce an article, without using this knowledge to reduce cost or control production costs, not only weaken a cost system of its main function, cost control and cost reduction, but leaves little, if any, justification for its existence. As a matter of fact, the cost figures are highly useful in a number of ways. Hence the second great advantage of cost accounts is that the cost figures that they yield are of very great utility.

5. Disclose of profitable and unprofitable activities

Cost accounts disclose the profitable and unprofitable activities of a business, and thus afford valuable suggestion for a reduction or elimination of those which are less or completely unprofitable, and for an expansion or adoption of those which are profitable. In the absence of costing the profits of one department may be eaten away by the losses incurred in some other department and the businessman may have no idea that by closing down or improving the latter, his business can become highly profitable.

6. Help in fixing prices and giving tenders

By disclosing actual cost of production, cost accounts offer to a businessman a reliable basis for fixing prices of his products, for selling is at least partly governed by cost of production. Though businessman must take other factors also into account, e.g. market conditions price policy of competitors, trade associations' attitude, etc, yet cost is the most important factor to be considered. Likewise cost accounts provide a reliable basis for cost provides a guide to price policy and a basis for estimates.

7. Guide for future production policies

Cost accounts explain the costs incurred and profits made in various lines of business and processes and thereby offer data on the basis of which production in a subsequent year can be appropriately planned.

8. Disclosure of the effects of wages, levels and plan on cost

Cost accounts can reveal the effect of an increase in wages or of a reduction in working hours on the volume of output and the cost per unit. The management can on the basis of such a study decide the effects on cost and production of different methods of remunerating labor.

9. Disclosure of different types of materials on cost

Cost accounts enable a comparison of the results of using various kind and quantities of raw materials on cost. In this and other ways, they afford on incentive for finding improved processes and new ways and means to achieve economy in cost and also to with other manufacturers successfully.

10. Disclosure of relative efficiency of different machines

Cost accounts also disclose the cost of producing a commodity by the use of different types of machines and thus enable a businessman to determine the relative efficiency of different machines.

11. Help in substituting capital for labor and vice versa

Cost accounts further enable businessman to compare the cost of production when he substitutes capital for labor or labor for capital. He is therefore; able to decide on sure grounds which course will give him reduced cost.

12. Disclosure of the contribution of the cost of a process or material of labor or overhead to total cost

Cost accounts also disclose to what extent the cost of a particular process or department contributes to the total cost and this knowledge can suggest the process or department where economy should be practiced. Cost accounts can likewise reveal what proportion material cost, labor cost or an overhead bears to the total cost, and the source of possible economy.

a. Usefulness of cost office records

Beside these two major advantages, the detailed records maintained in cost office have a range of usefulness far beyond their original purpose. These records prove useful in a number of important directions, which is another advantage of cost accounts.

b. Check on materials

The cost accounting system involves the use of different account books and cards like stores ledger and materials abstract, which provide and effective check on the stores and materials used in a business. Stealing and pilfering are thus held in check.

c. Check on the flow of materials in the factory

Where production is divided into different processes or in different departments, the flow of materials fro one process or department is kept under vigilance and control with the help of cost office records.

d. Check on persons

Cost accounts provide convenient and effective means of controlling individuals by fixing their respective responsibilities. The cost office records carefully check that the time of every worker is fully accounted for and there is no unaccounted idle time.

e. Check on the accuracy of financial accounts

Cost accounts can be and are compared with financial accounts and thus the accuracy of the later is considerably checked.

f. Usefulness of management

Cost accounts further help the management in a number of useful ways. It has been rightly stated that the ultimate aim of all cost account is to first ascertain accurately each and every cost involved and then to use cost figures intelligently for the successful management of a business. Some of the ways in which cost accounts help the management are discussed below.

i. **Help in tracing the course of profit or loss**: Cost accounts reveal the sources of profits and loss and thus enable the management to adopt a correct and profitable production policy.

ii. **Help in rectifying errors in policy making**: Detailed accounts can be conveniently prepared at frequent intervals and in this way current policies can be criticized and mistakes rectified without loss of time.

iii. **Help in increasing profits**: Cost accounting helps the management in maximizing profit by (a) disclosing the cost of various processes or jobs (b) by disclosing what they should cost and thus disclosing the sources of loss or waste (c) by aiding the efforts of management to exercise such

control as will minimize waste and (d) by stating whether the manufacture of certain commodities increases overhead expenses disproportionately.

iv. **Help during depression**: When business is good and profits keep on coming a businessman becomes somewhat self-complacent and relaxes his rigorous control over items of cost and course of inefficiency. But during a depression when even a modest profit will be a blessing, he has to become very watchful and vigilant.

Techniques of Cost Accounting

Following are the techniques of costing according to T. Lucay.

1. Absorption Costing

A costing technique where both variable and fixed overhead have been treated as product cost.

2. Direct Costing

A method of costing where only production costs that varies with volume is treated as product costs i.e. variable costs and fixed overhead is treated as product costs. **Distinction:** In both the differences is of the treatment of fixed factory overhead. Direct costing excludes it as product cost and absorption costing includes it in total product cost.

3. Standard Costing

Is a technique, which establishes predetermined standards of the cost of product and services and then compares this predetermined cost with actual cost as they occur. The predetermined cost is called standard cost. The difference between actual and standard cost is called variance, and the process of determining the variance is called variance analysis.

4. Marginal Cost

It distinguishes the difference in cost of alternative choices. It is the cost that must be considered when a decision involves a change in output.

5. Differential Costing

It is the difference in cost of alternative choices. It is the cost that must be considered when a decision involves a change in output.

6. Activity Based Costing (ABC)

ABC is a method of assigning costs to goods and services that assume all costs are caused by the activities used to produce those goods and services. This method provides more insight into the causes of costs than conventional costing methods. Conventional costing methods divide the total costs by the number of units to compute a unit cost, in contrast, ABC costing starts with the detailed activities causing a product or service and computes a product's cost using the following three steps.

- ❖ Identify the activities or transactions that cause costs to be incurred. These activities are called cost drivers. Cost drivers are causes of costs incurred. Machine hours could be a cost drier.
- ❖ Assign a cost to each cost driver.
- ❖ Sum the costs of the cost drivers that make up the product.

For example, Hewlett Packard recently installed ABC costing in its California Network Division. To compute a cost for personal computer circuit board, the accountants identified such cost drivers as number of parts in the product, number of times the components are inserted in the circuit boards, hours of testing and several others. The accountants assigned a cost to each cost driver. Then they summed these costs and added the total to the direct material costs to compute the product's unit manufacturing cost.

ABC costing has enabled the Hewlett Packard manages to identify which cost drivers have a major impact on product costs. From this information, managers have assigned certain products to reduce costs.

Cost Measures Method

Any of the above method can use any of the following means to measure the cost to manufacture.

1. Normal Costing

	Direct material cost
Add	Direct labor cost
Add	Applied Manufacturing overhead cost

Total manufacturing cost

2. Actual Costing

	Direct material cost
Add	Direct labor cost
Add	Total actual manufacturing overhead cost (fixed + variable)

Total manufacturing cost

3. Standard Costing

Predetermined cost standards are set and the actual cost is compared with these standards and the deviation or variance is being found.

Cost Behavior Analysis

Cost Behavior Patterns

In this section we will discussed variable and mixed or semi variable cost in detail

Fixed Cost

It means that the costs remain fixed in total regardless change in the volume of production in other words the costs do not vary with a relative output range and for a fixed period of time.
Examples:
Depreciation, Rent, Salaries of production executives, wages of security guards, insurance of property etc

- This cost remains fixed on total basis.
- This is variable on per unit basis.
- It decreases in total as actively increases.

It the Honda Corporation produces only 2500 cars in its Lahore plant in a year, the Rs. 500,000 fixed rental cost would amount to Rs. 200 per car. If 5000 cars are produced, it would be Rs. 100 per car.

Trends towards Fixed Costs

1. Capacity costs

Fixed costs are also termed as capacity costs, since they result form outlays made for plant facilities, equipment and so no, needed to provide basic capacity for sustained operations.

2. Discretionary fixed cost (managed fixed cost)

Sometimes fixed costs is also called managed fixed cost, these arise from annual decisions by management to spend in certain fixed cost areas i.e. advertising, research and development program.

3. Committed fixed cost

All those cost that relate to the investment in plant, equipment, and the organizational structure of a firm.

The important point is that these costs cannot be reduced to zero without changing or reducing either profitability or long run goals of the firm i.e. depreciation of plant, taxes, insurance and salaries.

Variance Cost

The total amount of variable costs change in proportion to changes in activity within a relevant range. The cost, which varies in total in direct proportion to the volume of the production in other words the variable cost, varies same as the volume of production change. For example if production increases 50% cost will also increase 50%.

Example

Supplies, fuel, small tools, overtime premium, royalties etc

- This cost is variable in total.
- It is fixed on per unit basis.

For example Suzuki Corporation produces Suzuki cars. There is one battery to each car. The battery cost Rs. 25 each. If we look at the cost of batteries on a per car basis, the cost remains constant at Rs. 25 per car. But the total cost of battery changes in direct proportion to the number of cars produced, as shown below.

Number of cars produced	Batteries per car	Total battery cost
250	25	6250
500	25	12500
750	25	18750
1000	25	25000

The idea that a variable cost is constant per unit but varies in total with the activity level is important to understand the cost behavior pattern.

1. The activity base

In order for a cost to be variable, it must be variable with something. That something is the activity base. There can be many measures of activity in a firm. Two of the most common activity bases are units produced and units sold, there may be other bases like material cost base, machine hours base. In order to planed and variable cost a manager must be well aware with the various activity bases within the firm.

Whether a cost is variable will depend on whether its incidence is a function of the activity measure under consideration. For example, if a manager is analyzing the cost of services calls under a product warranty, the relevant activity measures will

be the number of service calls made. Those costs, which vary in total with the number of service calls made, will be variable costs.

2. Extent of variable costs

The number and type of variable costs present in an organization will depend in large part on the organization's structure and purpose. A highly capital-intensive organization such as a public utility tends to have few variable costs. While a manufacturing firm will have more variable costs and a service organization or merchandizing firm will tend to fall between these two extremes. Examples of variable costs: -

Type of organization	Variable costs
Merchandising firm	Cost of merchandise sold
Manufacturing firm	Manufacturing cost
	Direct material, direct labor,
	Variable portion of overhead
	Lubricants, indirect labor etc
Service organization	Supplies, travel, clerical.

3. True variable versus step variable

True variable cost: Some variable costs behave in a true variable proportionately variable pattern. Direct material would be a true or proportionately variable cost. Direct material can vary directly with output. In addition, any amounts unused can be stored up and carried forward to the next period as inventory.

Step variable costs: A cost that is obtainable only in large chunks and which increases or decrease only in response to fairly wide changes in activity levels is known as a step variable cost. Such as labor cost of maintenance workers.

Mixed Cost

There is a group of cost known as semi fixed and semi variable in this cost one part of which is fixed while the other is variable. It is fixed for a certain point, and then it is variable in total. For example, the cost of electricity is usually semi variable. Electricity used for lighting tends to be a fixed cost because lights are needed regardless of the level of activity, while electricity used as power to operate equipment will vary depending on the usage of the equipment.
Examples
Inspection, heat light and power, payroll taxes, cost department services, water and sewage, maintenance of repair of plant and machinery.

The fixed portion of a mixed cost represents the basic, minimum charge for just having, a service ready and available for use. The variable portion represents the charge made for actual consumption of the service.

Analysis of mixed cost is normally done on an aggregate basis, concentrating on the past behavior of a cost at various levels of activity. If this analysis is done carefully, good approximation of fixed and variable elements of a cost can be obtained with a minimum of effort. There are three commonly used and well-accepted methods of analyzing mixed costs.

- ❖ High and low point method
- ❖ Scattered graph method
- ❖ Least square method.

We shall discuss them in brief here.

1. High and lot point method

This method of analyzing mixed costs requires that the cost involved (for example maintenance) be observed both at high and at low levels of activity within the relevant rage. The difference in cost observed at the two extremes is divided by the change in activity in order to determine the amount of variable cost involved.
Example
The maintenance cost for Saima Inc., have been observed as follows within the relevant rage of 5000 to 8000 direct labor hours.

Months	**Direct labor Hours**	**Maintenance Cost Rs**
June	5500	745
July	7000	850
August	5000	700
September	6500	820
October	7500	960
November	8000	1000
December	6000	825

We observe that:

	Direct labor Hours	**Maintenance cost Rs.**
High Point observed	8000	1000
Low Point observed	5000	700
	3000	300

Variable rate = $\frac{\text{Change in cost}}{\text{Change in activity}}$

Or

Variable rate = $\frac{\text{Maximum cost – Minimum cost}}{\text{Maximum activity – Minimum activity}}$

= $\frac{300}{3000}$ = Rs. 0.10 per direct labor hours

Having determined that the variable rate is 10 percent per direct labor hours, it is now possible to determine the amount of fixed cost present

For 8000 hours total maintenance cost	=	1000
For 8000 hours variable cost (8000 hours * 0.10)	=	800
Fixed cost	=	200

Both fixed and variable cost elements have no been separated. The cost of maintenance within the relevant range analyzed can be expressed as being Rs. 20 plus 10 percent per direct labor hours. This is sometimes referred to as ***Cost Formula***. However, this method is only applicable within a relevant range from which the data have been drawn.

2. Scattered graph method

In mixed cost analysis, the manager is trying to find the average rate of variability in a mixed cost, another way of doing this than the high and low point method is to include all points of observed data in the analysis through the use of graph. A graph is constructed in which cost is shown on the vertical axis and volume levels or rates of activity are shown on the horizontal axis. Costs observed at various levels of activity are then plotted on the graph, and a line is fitted to the plotted points, all points are considered in the placement of the line. This is done through simple visual inspection of the data, with the analyst taking care that the placement of the line is representative of all points, and not just the high and low ones. A graph of this type is known as ***Scatter-graph***, and the line fitted to the plotted points is known as ***Regression Line***.

A regression line is a line of average variable cost per unit of activity represented by the slope of the line and the average fixed cost in total in represented by the point where the regression line intersects the cost axis.

3. Least square method

The tem least square means that the sum of the squares of the deviations from the plotted points to the regression line is smaller that would be obtained from any the line fitted to the data. The least square method is a more advanced and popular approach to the Scatter-graph idea. Rather than fitting a regression line though the Scatter-graph data by simple visual inspection, the least square method fits the line by statistical analysis.

The least square method is based on computations which find their foundation in the equation of a straight line. A straight line can be expressed in equation form as:

Y =a + bX

Y	=	Total mixed cost
a	=	Fixed cost
b	=	Variable cost
X	=	Activity measure (hours etc)

Two simultaneous equations can be developed which will fit a regression line to any linear array of data. These equations are:

$$\Sigma XY = a\Sigma X + b\Sigma x^2$$
$$\Sigma Y = n * a + b\Sigma X$$

Self-Test Problem

Power and Gas Expenses in the past six months of Saima Products were as under:

Months	Direct labor Hours	Power & Gas expenses
July	6000	210
August	8000	240
September	7000	230
October	9000	270
November	7000	250
December	5000	180

Required: Determine the fixed element of power and gas expenses by the method of least square and high and low point method.

Method of Least Square

Month	Direct labor hours	Difference from average of 7000	Power age expenses	Difference from average of 230	Col (3)	Col 3* 5
1	2	3	4	5	6	7
July	6000	- 1000	210	- 20	1000000	20000
August	8000	+ 1000	240	+ 10	1000000	10000
September	7000	---------	230	--------	---------	---------
October	9000	+ 2000	270	+ 40	4000000	80000
November	7000	---------	250	+ 20	---------	---------
December	5000	- 2000	180	- 50	4000000	100000
	42000	**Zero**	**1380**	**Zero**	**10000000**	**210000**

$\frac{\text{Col 7}}{\text{Col 6}} = \frac{210000}{10000000}$

= 0.021 Per direct labor Hours

Y = a + bx
230 = a + 0.021 * 7000
230 = a + 147
a = 230 – 147
Fixed element = Rs. 83

High & low point method

For 9000 hours factory overhead expenses are Rs. 270
For 5000 hours factory overhead expenses are Rs. 180

Variable overhead rate per hour = $\frac{90}{4000}$

= Rs. 0.0225
Variable expenses for 9000 hours = 9000 * Rs. 0.0225
= Rs. 202.50

Fixed cost = 270 – 202.50
= Rs. 67.50

Flow of Costs

Cost enters the factory accounts with the acquisition of raw materials, facilities and other good and services. They leave only when the finished products are transferred to finished goods storeroom or are shipped to customers. Five aspects of the procedures used to account for factory costs require discussion at this point.

1. Recording the purchase and use of material.
2. Using control accounts and subsidiary ledgers.
3. Recording labor costs.
4. Recording overhead cost absorption (application)
5. Recording completion of jobs or works.
6. Recording sale of goods

The term flow of cost or internal movement of costs means flow of product costs through inventory accounts.

Material accounting maintains materials inventory records, charges direct material to job, and charges indirect material to overhead. Labor accounting maintains payroll related accounts, charges direct labor to jobs, and charges indirect labor to overhead. Overhead accounting accumulates overhead costs, maintains overhead detail records, and charges a share of overhead to each job or department.

To account for the costs associated with certain revenue producing activities requires a system for the accumulation of cost data on a systematic basis. In addition, costs should be recorded in such a manner as to provide a sound basis for analysis and control. There are two primary approaches to cost accumulation: job order costing and process costing. With job order cost accounting, the focus of cost accumulations is the specific batch or lot of goods manufactured. Under process costing, accounting data are accumulated by department or other cost center and averaged over all the production that occurred in the specific cost center.

Manufacturing operation start with issuance of a production order authorizing the factory foreman to proceed with the manufacturing. The important consideration at this point is the flow of costs from the point at which the costs are incurred, to the accumulation of those costs on job cost sheets or process cost sheets, and through the assignment of costs to the revenue earned in a given period.

1. Recording the Purchase and use of material

i. Purchase of material: -

Materials accounting begins with the issue of a purchase requisition or its equivalent a request to the purchasing department to acquire certain items from outside vendors. Once a vendor is selected, a purchase order is prepared detailing the amounts and specifications of the materials desired, usually together with a request delivery date.

When the goods are shipped, the vendor sends an invoice to the purchasing department, together with other shipping documents. The invoice lists the actual quantities shipped, the prices charged, and the total amount of the payment due. When the goods are received, they are inspected and counted and a receiving report is prepared at this point the accountant usually make an entry to record the receipt of the materials and the company's liability to the vendor.

For example, suppose that a company purchase materials during May at a cost of Rs. 30,000 and placed them in the factory storeroom. Payment for these materials was to be made within 30 days. In summary form, the entry to record these purchases would be:

Material Control Account	30,000	
Voucher Payable		30,000

That is the purchases both the assets total and the company's liabilities by 30,000.

ii. Return of defective material to supplier: -

Sometimes the material purchased is found to be defective and is returned back to the supplier, in this case a debit memorandum is also sent to the supplier, which is late used as a source document. The following entry is made:

Voucher Payable	300	
Material Control Account		300

iii. Issuance of direct and indirect material to factory: -

Materials costing Rs. 22,375 were withdrawn from the storeroom through material requisition, during the month and issued to factory department. Of this sum, Rs. 22,145 represented the cost of materials issued specially for individual jobs, to be charged as direct material on those jobs. The remaining Rs. 530 was the cost of supplies for general use in the factory, not traceable to any specific job or jobs or works. It was thus chargeable to a factory overhead account. The entries to record

these materials issue can be summarized in the following entries and a single entry can also be made as follows: -

a. ***For recording direct material issued:***

Work In Process Material (Dr)
Material Control (Cr)

b. ***For recording indirect material issued:***

Factory Overhead Control Indirect Material (Dr)
Material Control (Cr)

c. ***A single entry can be convenient to be made as:***

Work in Process Material (Dr)
Factory Overhead Control Indirect Material (Dr)
Material Control (Cr)

iv. Return of excessive or unused material from factory to stores: -

Sometimes the material issued to the factory for production become excessive and there may be no room in factory for keeping them, therefore this material is returned back to stores. A material return report is also prepared by factory staff, which is later used as a source document. The following journal entry is made in subsidiary records:

Work In Process Material (Dr)
Factory Overhead Control Indirect Material (Dr)
Material Control (Cr)

Using Control Accounts and Subsidiary Ledgers

The material control account, work in process, and factory overhead accounts in this illustration appear in the company's general ledger or main file of accounts are known as ***summary*** or control ***accounts***. This means that the balances in these accounts correspond in total to the amounts shown in more detailed subsidiary ledgers or cost files.

For example, the detail underlying the material control account balance is provided in the individual stock card in the subsidiary ledger known as stores ledger. Similarly, the balance in work in process account should agree with the total of all the costs shown on the job cost sheets for jobs still in process, and the factory overhead control account balance should correspond to the total of the amounts shown in the detail overhead accounts for the individual factory costs centers. The main purpose of these summary or control accounts and their accompanying subsidiary files are:

1. To reduce the bulk of general ledgers.
2. To facilitate access to portions of the accounts file without temporarily immobilizing other portions of the file.

The accounts have been left out of this illustration for simplification only.

During the processing or completion of a product, the material cost is first incurred then labor and factory overhead cost is incurred, until the product is completed the payments, which is made in this connection is an asset and thus their amounts is accumulated in inventory account known as ***work in process control account*** (work in process material account, work in process labor account and work in process factory overhead account) then on completion of product the cost is transferred from inventory account to the ***finished goods account*** (up till now it is called the product cost) and when the finished goods are sold and revenue (sale) is earned the cost is converted into expense i.e. ***cost of goods sold account***.

Recording Labor Costs

Payroll accounting has two sides; the first dealing with the liability payment aspect of the transactions and the second having to do with the identification of the cost with various segments of activity, usually referred to as the distribution of labor cost. Remember that payroll control account is a clearing account where total payroll for different classes of labor is accumulated for a particular period and then is transferred. Payroll register is a columnar register, which shows the different classes of labor, their time spent, rate of earnings, gross earnings, deductions and net cash flow to the labor. Time ticket, piece work sheets or clock card serve the purpose of primary documents for the preparation of payroll account.

Payroll Accrual

The liability payment aspects of payroll accounting are not part of cost accounting, and only the briefest summary of procedures is necessary here. Wages and salary liabilities are accrued on the basis of information from two sources: personal

records and attendance of production records, as discussed above it may be a job time ticket or clock card. For each employee, a master personal record is maintained, showing his employment history with the company, job classification, title, current rate of pay, and authorized deductions for hospitalization insurance, pension plans, savings plans, union dues, and others.

The attendance record is usually provided by an in and out clock card from which it is possible to compute the total elapsed time the employee has been in the plant and ready for work during the payroll time. Elapsed time is classified between regular and overtime, and the clock card identifies the shift worked if the company operates more than one shift.

For salaried employees, the payroll liability is ordinarily taken directly from the master personal record. Attendance cards may be checked for excessive absences or for paid overtime if the salary plan adjusts for these. For hourly employees, wage liability for the payroll period is computed by multiplying the rate worked by the number of hour worked, as shown on the clock card. If a shift differential is paid for workers on second and third shifts, the basic rate is adjusted to provide for this differential. Overtime hours and paid for at the overtime rate applicable to the particular employee and shift. A entry covering the various deductions and showing the net amount payable to workers is also made as follows.

Payroll		Dr	
	Accrued Payroll		Cr
	Income Tax Payable		Cr
	Social Security Contribution		Cr
	Provident Fund Contribution		Cr
	Life Insurance Premiums Payable		Cr
	Welfare Fund Contribution		Cr

Labor cost distribution:

Labor cost distribution in job order production is usually based on the individual time ticket. Because these time tickets are prepared as work is performed, the company has option of distributing wages costs directly from the time tickets without waiting for reconciliation with the attendance records.

Each cost center may have several indirect labor accounts. Some of these, bearing titles such as waiting for materials, waiting for repairs, and rework labor, are used to accumulate the costs of various kinds of nonproductive or down time. Use of such accounts is justified whenever a particular event is likely to happen often enough and with a large enough effect to require routine feedback. For example, if

machine breakdowns are likely to cause 10 hours of idle time a year in a 10-man costs center, management probably doesn't need precise data on breakdown time.

For example, the factory payroll for May totaled Rs. 19,330. This amount included Rs. 14,225 for the production workers time that could be traced to individual jobs (direct labor), and Rs. 5,105 for various type of indirect labor. A summary entry to record these payrolls could be:

Work In Process Direct Labor	14,225	Dr		
Factory Overhead Control Indirect Labor	5,150	Dr		
Payroll Payable			19,330	Cr

The direct labor costs were thus treated as part of the costs of the asset work in process, indirect labor costs were placed temporarily in an operating cost summary account, factory overhead; and both were financed temporarily by an increase in the company's liabilities. The direct labor costs were also entered on the individual jobs cost sheets, while the indirect labor costs were recorded in the various cost center overhead accounts.

Besides this there is also administrative and marketing staff in an organization, they are also paid, thus a more complete analysis is made regarding labor. This analysis is presented in the form of labor cost distribution sheet. Now the following entry is made for showing the distribution of payroll: -

Work in Process Direct Labor	1400	
Factory Overhead Control Indirect Labor	1500	
Administrative Expense Control Account	500	
Marketing Expenses Control Account	600	
Payroll Payable		4000

Recording the employer contribution regarding various welfare funds: -

As the employer has deducted some amount from the pay of employer as a contribution towards a welfare fund, according to statutory requirements each employer has to contribute a sum towards the same welfare fund. The sum contributed by the employer should be equal or more than the amount contributed by the employee. For convenient purposes, direct and indirect labor may be considered as indirect labor cost and is charged to factory overhead control account. Following entry is made in general journal: -

Factory Overhead Control Indirect Labor	500	Dr
Administrative Expense Control Account	250	Dr

Marketing Expenses Control Account	250	Dr
Provident Fund	500	Cr
Benevolent Fund	500	Cr

Cost Accumulation Procedure for Factory Overhead

Since the indirect factory costs applicable to a specific job cannot be determined in the same manner as the cost of direct materials and direct labor, different procedure must be devised. Some of these costs, such as depreciation, may not be recorded until the end of the fiscal accounting period. Business firms have therefore used an estimated cost procedure.

At the beginning of each accounting period the manufacturing firm will prepare a budget or an estimate of what the firm accepts these indirect manufacturing costs to be. This budget will show the expected indirect material costs, the expected indirect labor costs including supervision, and other factory expenses such as rent, real estate taxes, insurance, depreciation and repairs. This budget of course will have to be taken into considerations the estimated production for the period. The firm thus will also have to estimate its production volume which may be expressed in terms of units (for a single product company) direct labor hours, direct machine hours, or direct labor costs. Dividing the budgeted overhead total by the estimated volume of production will produce a predetermined manufacturing overhead rate, which is used in charging the various jobs for their share of these indirect costs. It is known as the applied factory overhead. For example, if the total budgeted manufacturing overhead for the year is Rs. 30,000 and the estimated or budgeted production of this same period expense in terms of direct labor hours is 10,000 hours then the predetermined factory overhead rate to be used on the various job order sheets is Rs. 3 per direct labor hours.

The total estimated overhead costs from the numerator of the overhead allocation formula, while the activity level forms the denominator. The equation for cost allocation would appear as follows.

$$\text{Overhead Rate Per Activity} \qquad \frac{\text{Total Estimated Overhead Cost}}{\text{Total Estimated Activity}}$$

When actual results differ from the estimates then the overhead charged to production will vary from the actual amount of overhead incurred. This difference can be analyzed to determine whether the variance was caused by changes in cost elements themselves or by change in activity levels.

Why a predetermined factory overhead is used?

There are many reasons for using the estimated factory overhead:

⇒ **1**

Direct material issued for the completion of a certain product can be easily known from the material requisition or the stores ledger card and other records, labor in connection to a certain product can also be known fro the time ticket, clock cards, but as far as manufacturing overhead is concerned, say heat light and power, we cannot say easily that what amount of this expense is attributable to a certain product as there will certainly be other products in process in the area. In other words it is not easy to prorate promptly the amount of manufacturing overhead to different products which are produced in the same area, it requires a complicated method and lot of time, which will cause delay in fixing the sale price of the product, since cost cannot be forecasted (due to absence of cost of factory expenses) thus a predetermined factory overhead is used.

⇒ **2**

There are certain items included in factory overhead such as idle time. Overtime premium etc. that are not certain, they may incur or may not incur, although to determine the actual factory expenses these must be known. To avoid this problem a predetermined factory overhead is used, and then at the end of completion of period, the actual factory expenses are calculated and compared with the applied or estimated expenses to see, whether our estimate was right or wrong and if so what were the causes.

Accounting for Factory Overhead

As the actual overhead incurred is charged into production by means of an overhead application rate. Two accounts are used for overhead cost accumulation and allocation. The manufacturing overhead control account is used to record actual manufacturing overhead cost as they are incurred. The account will be supported by a number of subsidiary accounts for specific overhead cost items. The indirect material and indirect labor accounts were discussed in connection with materials and labor costing. Other accounts would be used for such as building depreciation. Utilities, heat, supervision, factory supplies and equipment repairs. These are recorded on factory overhead subsidiary ledger or ***factory overhead expenses sheet*** or ***primary standing orders***, in case of department wise expenses ***departmental expenses analysis*** sheet or secondary primary orders we used as to record the actual factory expenses and later to be used as source document.

The Concept of a Clearing Account

The factory overhead or manufacturing overhead account operates as a clearing account. Actual factory overhead costs are charged to it as they are incurred day by day throughout the year. At certain intervals during the year, usually when a job is completed, overhead cost is released from the manufacturing overhead account and is applied to work in process account by means of a predetermined overhead rate. These sequences of events as explained earlier, are illustrated below.

Manufacturing overhead (a clearing account)

Actual overhead costs are charged to the account as these costs are incurred day by day throughout the period.		Overhead is applied to work in process on a periodic basis by means of the predetermined overhead rate.	

The predetermined overhead rate is based entirely on estimates of what overhead costs are expected to be, and it is established before the year begins. As a result, the overhead cost applied during a year may turn out to be more or less than the overhead costs that are actually incurred. For example, Saima company actual overhead cost from the period are Rs. 55,000 greater then the overhead costs that has been applied to work in process, resulting in a Rs. 55,000 debit balance in the manufacturing overhead account.

The cost of a completed job consists of the actual direct material cost of the job, actual direct labor cost of the job and the overhead applied costs applied to the job. Actual overhead costs are not charged to the jobs; actual overhead costs do not appear on the job order cost sheet they do not appear in the work in process account. Only the applied overhead cost, based on the predetermined overhead rate, appears on the job cost sheet and in the work in process account.

Recording the factory overhead transactions in books of accounts

To record the actual factory overhead incurred during the period four types of entries are made: -

1. For indirect material used

Factory Overhead Control Indirect Material Dr

Material Control Cr

2. For indirect labor costs

Factory Overhead Control Indirect Labor Dr

Payroll Cr

3. ***For recording other factory expenses (actual factory overhead)***

Factory Overhead Control Account Dr

Voucher Payable Cr
Allowance For Depreciation Cr
Prepaid Insurance Cr
Accrued Taxes Cr

4. ***The estimated factory overhead entered on the job order cost sheet. For all jobs produces the following entry.***

Work In Process Dr

Applied Factory Overhead Cr

5. ***Closing the factory overhead applied to actual factory overhead (control account only)***

Factory Overhead Applied Dr

Factory Overhead Control Account Cr

6. ***It is common practice to use a factory overhead applied account because it keeps estimated cost debited to work in and actual costs in separate accounts. Some companies do not use the applied account but post the credit directly to the factory over head control account in this manner.***

Work In Process Dr

Factory Overhead Control Account Cr

Under or Over Applied Factory Overhead

The amount of predetermined factory overhead may not meet the actual expenses incurred. What is the cause of under applied or over applied overhead? Generally, the cause can be traced to one of the two factors:

- ✓ The cost of inputs (lubricants, utilities and so on) may change from what was estimated at the beginning of the period because of external market forces.

- ✓ The actual level of activity may be different from what was estimated at the beginning of the period.

What disposition should be made of any under over applied balance remaining in the factory overhead account at the end of the period? Generally, any balance in the account is treated in one of the two ways.

1. **Allocated between works in process**: Finished goods, and cost of goods sold in proportion to the ending balances in these accounts. The choice between these two approaches depends in large part on the amount of under over applied overhead involved. The greater amount, the more likely a company is to choose the second alternative.
2. **Closed out to cost of goods sold**: If the balance in the manufacturing overhead account is small, most companies will close it out directly to cost of goods sold, since this approach is simpler than allocation. In case of under applied factory overhead, the following journal entry will be made:

Cost of Good Sold	Dr		
		Factory Overhead Control	Cr

Note that since there is a debit balance in the factory overhead account. Overhead must be credited to close out the account. This has the effect of increasing the cost of goods sold.

Allocation between Accounts

Allocation of under or over applied factory overhead between works in process. Finished goods and cost of goods sold is more accurate than closing the entire balance into cost of goods sold. The reason is that allocation assigns overhead costs to where they would have gone in the first place had it not been for the errors in the estimates going into the predetermined overhead rate. Although allocation is more accurate than direct write-off, it is used less often in actual practice because of the time and difficulty involved in the allocation process. Most managers believe that the greater accuracy isn't worth the extra effort that allocation requires, particularly when the Rupee amounts are small. The journal entry in case of under applied factory overhead would be:

Work In Process	Dr		
Finished Goods	Dr		
Cost of Goods Sold	Dr		
		Factory Overhead Control	Cr

If overhead had been over applied, the entry above would have been just reverse, since a credit balance would have existed in the factory overhead control account.

Estimated Overhead Cost	The amount of overhead cost that management estimates will be incurred. This estimates is made before the period begins in order to compute the predetermined overhead rate.
Actual Factory Overhead	The amount of overhead cost that is actually incurred during a period.
Applied Overhead Cost	The amount of overhead cost that is added (applied) to work in process. This amount is computed by multiplying actual activity during a period by the predetermined overhead rate.

Accounting for completed job or cost of sales

The final step in job costing is to transfer the costs of completed jobs from the in-process inventory account. In the typical case, once the job is completed, the accumulated costs for that job are transferred to the finished/completed goods account. The entry to record this transfer requires the following:

Finished Goods Account / Completed Jobs	Dr	
Work in Process Material		Cr
Work in Process Labor		Cr
Work in Process Factory Overhead		Cr

A single work in process account i.e. work in process control account can also be used, and then the entry would look like:

Finished Goods	Dr	
Work in Process Control Account		Cr

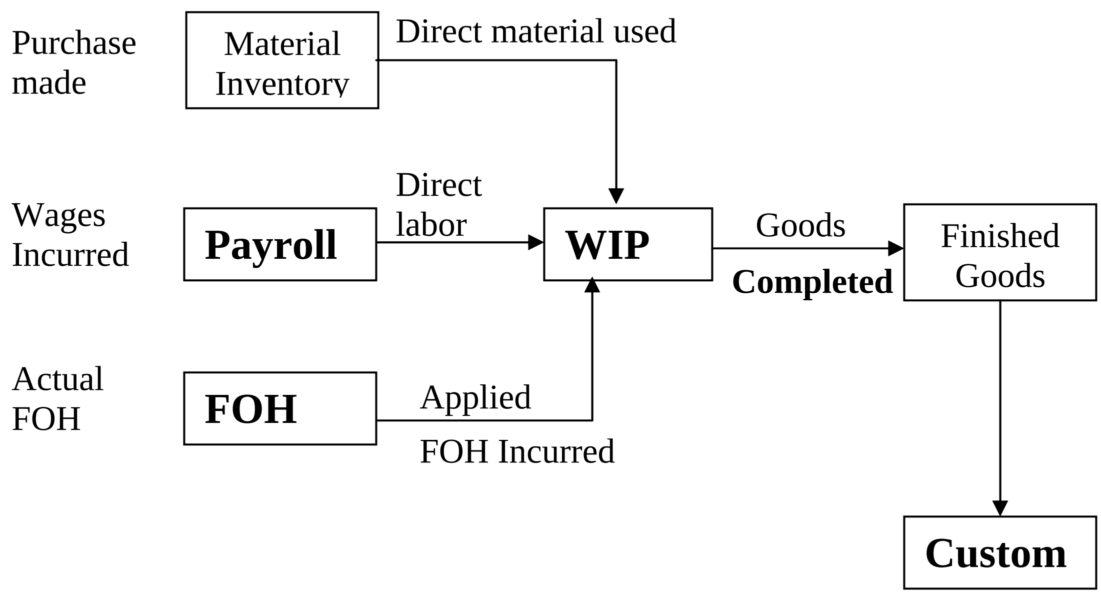
When this job is sold, the entry to record the sale would be accompanied by an entry to record the assignment of the cost of sales. Two entries would be follows:

Cost of Goods Sold Dr
Finished Goods Cr

This shown a decrease in company assets and in the owner's equity in the business that result from the transfer of finished goods to the company's customers. This must then be compared with the amount by which the proceeds from these sales increased the company's assets and the owner's equity. While the amount charged to the customer will be shown by the following entry:

Account Receivable Dr
Sales Cr

Diagram Showing Cost Flow



General and Factory Ledger

We have seen how the entries covering the flow of cost are passed in one single ledger. However, if the factory is situated away from the head office, then it becomes inconvenient for the manufacturing firm to maintain the records of factory transactions. Therefore the records or accounts relating to factory are maintained in the form of factory ledger in its accounting system. Generally this procedure is used when manufacturing operations are far away from main office, or when the nature of such operations requires a large number of accounts. In such cases, the data related only to manufacturing operations, i.e. that needed to compile cost of goods manufactured and cost of goods sold are posted to accounts in the factory ledger. Typically, these include stores (materials), work in process,

payroll and factory overhead and finished goods. A control account general ledger, also included on the factory books and it is maintained at the head office.

Most firms maintain cash and other factory assets on the general office records. Thus, the general ledger includes such accounts as sales, cost of goods sold, factory equipment, accumulated depreciation (depreciation expense for the period kept in the factory journal) and liabilities. It also includes the control account, factory ledger.

Entries relating to the general ledger and factory ledger are first recorded in the general journal and factory journal. The control accounts factory ledger and general ledger are reciprocal in nature i.e. a debit to one is an automatic credit to the other and vice versa. They are used whenever a transaction affects both journals, should always equal each other, and cancel out for statement purpose.

Entries in General Ledger

Sr.	Transactions	Debit	Credit
1	At the time of opening the factory ledger	Factory Ledger	Work in Process Material Work in Process Labor Work in Process FOH Finished Goods
2	Entries for purchase of materials	Factory Ledger	Voucher Payable
3	Entries for requisition of direct & indirect material & shipping supplies (put into process)	Selling Expenses Control Account	Factory Ledger
4	Entries for return of material to vendor	Voucher Payable	Factory Ledger
5	Entries for return of material from factory	No Entry	No Entry
6	Entries to prepare the payroll at factory & set up payroll liability & to pay employees at the home office	Payroll	Accrued Payroll Income Tax Provident Fund
7	Preparing the voucher of payroll	Accrued Payroll	Voucher Payable / Cash
8	Distribution of factory office payroll	No Entry	No Entry
9	Distribution of home office Payroll	Selling Expenses Control Account Admin Expenses Control Account	Payroll

			Provident Fund
10	Employer shares of provident fund	Selling Expenses Control Account Admin Expenses Control Account	Employer Provident fund
11	Entries for actual factory	Factory Ledger	Allowances for Depreciation Prepaid Insurance Accrued Taxes
12	Entry for applied FOH	No Entry	No Entry
13	Entry to close applied factory overhead to actual factory overhead	No Entry	No Entry
14	Entry to record finished goods	No Entry	No Entry
15	Entry to record cost of goods sold	Cost of Goods Sold	Factory Ledger
16	Entry to record Sale	Accounts Receivable	Sale

Entries in Factory Ledger

Sr.	Transactions	Debit	Credit
1	At the time of opening the factory ledger	WIP Material WIP Labor WIP Factory Overhead Finished Goods	General Ledger
2	Entries for purchase of materials.	Material Control Account	General Ledger
3	Entries for requisition of direct and indirect material (put into process)	WIP Direct Material FOH Control	Material Control Account
4	Entries for return of material to vendor	General Ledger	Material Control Account
5	Entries for return of material from factory	Material Control Account	Work in Process Direct Material
6	Entries to prepare the payroll at factory & to setup payroll liability & to pay employees at the home office	Payroll	General Ledger
7	Preparing the voucher of payroll	No Entry	No Entry
8	Distribution of factory payroll	WIP Direct Labor Factory Overhead Control A/c	Payroll
9	Distribution of home office payroll	No Entry	No Entry
10	Employer shares of	WIP Direct Labor	

	provident fund	FOH Control Ind. Labor	Employer's Provident Fund
11	Entries for actual factory expenses	Factory Overhead Control	General Ledger
12	Entry for applied FOH	WIP Factory Overhead	Applied Factory Overhead
13	Entry to close applied factory overhead to actual factory overhead	Applied Factory Overhead	Factory Overhead Control
14	Entry to record finished goods	Finished / Completed goods	Work In Process Material Work In Process Labor Work In Process Factory Overhead
15	Entry to record cost of goods sold	General Ledger	Finished / completed goods
16	Entry to record sale	No Entry	No Entry

Note: - In case when in question it is given that payroll is maintained in the books of general office; pass payroll entries in general office but in case in question it is stated that the factory maintain the payroll then pass payroll entries in factory office book. Some time in question payroll entries are distribute both in the books of general office and factory office in that case we must follow the instruction of the question (problem).

	General Ledger		**Factory Ledger**	
	Debit	**Credit**	**Debit**	**Credit**
1	**At the time of opening the factory ledger.**			
	Factory Ledger	WIP Material WIP Labor WIP FOH Finished Goods	Work In Process Material Work In Process Labor Work In Process FOH Finished Goods	General Ledger
2	**Entries for purchase of materials.**			
	Factory Ledger	Voucher Payable	Material Control Account	General Ledger
3	**Entries for recording requisition direct material, indirect material and shipping supplies.**			
	Shipping Supplies	Factory Ledger	General Ledger Work In Process-D Material FOH Control Account	Material Control
4	**Entries for return of material to vendor.**			
	Voucher Payable	Factory Ledger	General Ledger	Material Control
5	**Entries for return of material from factory**			
	No Entry	No Entry	Material Control Account	WIP Material

				FOH Control
6	**Entries to prepare the payroll at factory and to setup payroll liability.**			
a	Payroll	Accrued Payroll Income Tax Provident Fund Social Security Fund	No Entry	No Entry
b	**If a factory book is also maintained**			
	Factory Ledger	Accrued Payroll Income Tax Provident Fund Social Security Fund	Payroll	General Ledger
7	**Recording the voucher of net payroll payable**			
	Accrued Payroll	Voucher Payable/Cash	No Entry	No Entry
8	**Distribution of factory office payroll**			
	No Entry	No Entry	Work In Process Direct Labor FOH Indirect Labor	Payroll
9	**Distribution of home office payroll**			
	Selling Expenses Control A/c Admin Expenses Control	Payroll Provident Fund	No Entry	No Entry
10	**Employer shares of provident fund**			
	Selling Expenses Control Admin Expenses Control	Employees Provident Fund	Work in Process D. Labor FOH Indirect Labor	Employer's Provident Fund
11	**Entries recording actual factory expenses.**			
	Factory Ledger	Voucher Payable Allowance for Depreciation Prepaid Insurance Accrued Taxes	Factory Overhead Control	General Ledger
12	**Entry for applied factory overhead.**			
	No Entry	No Entry	Work In Process FOH	Applied FOH
13	**Entry to close applied factory overhead to actual FOH**			
	No Entry	No Entry	Applied Factory Overhead	FOH Control
14	**Entry to record finished goods**			
	No Entry	No Entry	Finished Goods Work In Process Material Work in Process Labor Work In Process FOH	

				WIP Material WIP Labor WIP FOH
15	**Entry to record cost of goods sold**			
	Cost of Goods Sold	Factory Ledger	General Ledger	Finished Goods
16	**Entry to record sale**			
	Accounts Receivable	Sale	No Entry	No Entry

Self-Test Problems

Self-Test Problem 1: -

T accounts showing flow of cost. The Saima Company had the following inventories on May 1, 2004:

Material	Rs. 60,000	Work In Process Material	Rs. 30,000
Finished Goods	Rs. 50,000	Work In Process Labor	Rs. 36,000
		Work In Process FOH	Rs. 27,000

During May, the cost of materials purchased was Rs. 20,000 direct labor cost incurred was Rs. 18,000 and factory over applicable to production was 75% of the direct labor cost. The May 30 inventories were as follows:

Material	Rs. 30,000	Work In Process Material	Rs. 12,000
Finished Goods	Rs. 47,000	Work In Process Labor	Rs. 20,000
		Work In Process FOH	Rs. 15,000

Required
T accounts showing the flow of cost of goods manufactured and sold, using three accounts for work in process.

Material

Inventory	60,000		23,000
	20,000	Inventory	30,000

Work In Process Material

Inventory	30,000		24,800
	23,000	Inventory	12,000

Work In Process Labor

Inventory	36,000		19,600
	18,000	Inventory	20,000

Work In Process Factory Overhead

Inventory	27,000		14,700
	13,500	Inventory	15,000

Finished Goods

Inventory	50,000	Cost	59,400
Material	24,800	Inventory	47,000
Labor	19,600		
FOH	14,700		

Cost of Goods Sold

Inventory	59,400		

Self-Test Problem 2

Saima Corporation has it general office in Kashmir but has its factory in Lahore. A separate set of records is kept at the general offices and at the factory.

On January 1, 2005 the trial balance of the factory books shows:

	Rupees	**Rupees**
Stores	2,500	
Work In Process Material	4,500	
Work In Process Labor	4,000	
Work In Process Manufacturing Expenses	1,500	
Finished Goods	7,500	
General Ledger		20,000
	20,000	**20,000**

For the first six months of year 2005 the following transactions took place:

a. Material purchased Rs. 97,500.

b. Factory selling and office payroll, gross amount Rs. 52,000. In making up the workers cheques the general office deducted Rs. 52,00 for provident fund and 15% for income tax. Liability for employer's contribution of provident fund is kept on the office books.

Analysis of Payroll made by general office shows Rs.

Direct Labor	28,000
Indirect Labor	4,000
Selling Salaries	8,000
Office Salaries	12,000

c. Analysis of requisition from stores — Rs.

Direct Materials	38,000
Indirect Materials	9,000
Shipping Supplies	4,000

d. Manufacturing expenses are applied to the production at the rate of 80% of direct labor cost.
e. Defective goods returned to supplier Rs. 1,250.
f. Payment made to vendor Rs. 36,000 less 2% discount.
g. Manufacturing expenses of Rs. 35,000 less any already mentioned were record. Included was Rs. 5,000 for depreciation on factory machinery.
h. Goods completed Rs. 82,000 of which Rs. 32,000 represents materials, Rs. 30,000 direct labor, Rs. 20,000 applied manufacturing expenses.
i. Goods costing Rs. 63,000 were sold for Rs. 103,000.

Required
Journal entries on the books of general office and factory to record the transactions.

	General Ledger			Factory Ledger		
	Particulars	**Debit**	**Credit**	**Particulars**	**Debit**	**Credit**
a	Factory Ledger	97,500		Material Control A/c	97,500	
	Voucher Payable		97,500	General Ledger		97,500
b	Payroll	52000		No Entry		
	Accrued Payroll		39,000			
	Income Tax		7,800			
	Provident Fund		5,200			
	Accrued Payroll	39,000		No Entry		
	Voucher Payable		39,000			
	Selling Expenses Control	8,000		WIP Labor	28,000	
	Admin Expenses Control	12,000		FOH Control	4,000	
	Factory Ledger	32,000		General Ledger		32,000
	Payroll		52,000			
	Factory Ledger	5,200		FOH Control	5,200	
	Provident Fund		5,200	General Ledger		5,200
c	No Entry			WIP Material	38,000	
				FOH Control	13,000	
				Material Control		51,000
d	No Entry			WIP FOH	22,400	

				Applied FOH		22,400
e	Voucher Payable Factory Ledger	1,250	 1,250	General Ledger Material Control	1,250	 1,250
f	Vendor Discount Cash	36,000	 720 35,280	No Entry		
g	Factory Ledger Acc Depreciation Voucher Payable	12,800	 5,000 7,800	FOH Control General Ledger (35000-22200)	12,800	 12,800
h	No Entry			Finished Goods WIP Material WIP Labor WIP FOH	82,000	 32,000 30,000 20,000
i	Cost of Goods Sold Factory Ledger	63,000	 63,000	General Ledger Finished Goods	63,000	 63,000
	Account Receivable Sales	103000	 103000	No Entry		

Cost Accumulation Methods

Costing System

A costing system is a method of costing, which is designed to suit the ways goods are processed or manufactured or the way that services are provided.

It follows that each firm have a costing system, which has unique features. Every month a manufacturing plant may handles thousands of requisition, purchase orders, receiving reports, vendors' invoices, vouchers, stock issue, checks and similar business documents. Thus, the accumulation and classification of routine cost and accounting data is a very important and time consuming task, requiring a well planned cost accounting system.

Each firm employ different manufacturing methods, for example a food processor and a cotton-ginning factory, will have distinctly different costing methods. It must be clearly understood that whatever costing method is employed, the basic costing principles relating to analyzing, allocating and apportionment will be used.

Categories of Costing Methods

There are two broad categories of product costing methods, namely:

- Specific Order Costing
- Continuous Operations / Process Costing

Specific Order Costing

This can be defined as: "The basic costing method applicable where the work consists of separate contracts, jobs, or batches". In most cases, the job or contract is the unit cost and frequently, but not always, the jobs or contracts are different from each other. The main subdivisions of specific order costing are:

- Job Order Costing
- Contract Costing
- Batch Costing

Continuous Operations / Process Costing (Unit Costing)

This can be defined as: "The basic costing method applicable where goods or services result from a sequence of conditions or repetitive operations or processes

to which costs are charged before being averaged over the units produced during the period". The main sub-divisions are:

- Process Costing Including Joint Product and By-Product
- Service Function Costing

Job Order Costing

In job order costing, or job costing, production costs are accumulated for each separate job. A job is the output identified to fill a certain customer order or to replenish an item of stock on hand. This differs from process costing, in which costs are accumulated for an operation or a subdivision of company, such as a department. In order for a job order costing to be effective, jobs must be separately identifiable. For the detail of job costing there must be important differences in unit costs from one job to another.

Process Costing

Under process costing, department accumulates accounting data or other cost center and averaged overall of the production that occurred in the specific cost center.

Blended Methods

In some manufacturing different units have significantly different direct materials costs, but all units undergo identical conversion in large quantities. In these cases, direct materials costs are accumulated using job order costing, and using process costing accumulates conversion costs.

Back-flush costing

In recent years, some manufacturing facilities and parts of facilities have increased their processing speed so much that their average eclipsed time between receipt of raw materials and production of finished work has been reduced from a matter of weeks or months to a matter of hours. Not surprisingly, these developments question the usefulness of job order or process costing because of the detailed tracking of the cost of work in process that both of those methods maintain.

Back-flush costing is a workable way to accumulate manufacturing costs in a factory or part of a factory in which processing speeds are extremely fast, it is workable because it bypasses the routine cost accounting entries that are required in subsidiary records of job order and process cost accumulation, thus saving considerable data processing time. Where there is insufficient time an and

insufficient incentive to track the detailed costs of work in process, back-flush costing provides a method of cost accumulation by working back word through the available accounting information after production is completed; i.e. at the end of each accounting period. Back-flush costing is also called back-flushing is an abbreviated approach to accounting for the flow of manufacturing costs. It is applicable to mature just in time system in which velocity is so high that traditional accounting is not possible.

Just in Time

JIT is philosophy centered on the reduction of costs through elimination of inventory. All materials and components should arrive at a workstation when they are needed no earlier and no later. Products should be completed and available to customer when the customers want them no earlier and not later. Elimination of inventories eliminates storage and carrying costs, however, it also eliminates the cushion against production errors and imbalances that inventories provide. As a result, high quality and balanced workloads are required in JIT system to avoid costly shutdowns and customers ill will. Because of the need for quality and balanced production, JIT has come to be closely identified with efforts to eliminate waste in all its forms, and thus it is an important part of many total quality management (TQM) efforts.

The Voucher System

The voucher system includes all documents, records and procedures involved in the insurance and settlement of liabilities. Purchases of every kind, which require cash payments, are recorded. Efficient handling, sufficient review and adequate approval are more readily attained by means of the voucher system than by any other present ay method. Various costs can be more readily traced through proper coding provided by a good chart of accounts and much better cost control can be maintained.

The Voucher

Voucher is documentary evidence, which prove the accuracy of transactions. Generally voucher provides detail including the account and code number to be debited, certification that the transaction is authorized along with copies of pertinent documents, and the signature of the person who recorded the voucher in the voucher register.

Voucher Register

An essential record in the voucher system is voucher register. This is a sophisticated form of purchase journal in which all expenditures are included. The form of the register varies according to the needs of the particular company. Important data to be included are: the voucher number, the name of the payee, the date of the voucher, the amount, and the accounts debited and credited.

When payment is made, the data and cheque number are inserted so that at the end of the month the totals are summarized for posting to the ledger. In a voucher system, all disbursements are made by cheque and every cheque pays one or more vouchers, which are generally indicated on the cheque. Thus, there is a good cross reference since the voucher register shows for each voucher, the cheque number though which the voucher was paid, the cheque register shows, for each cheque, the voucher number paid through cheque.

Cheque Register

In voucher system cheques are issued only for properly approved and recorded vouchers. Every cheque is debited to voucher payable. The cheque register records the cheque number in numerical sequence, the date and the name of the payee, the voucher number and amount paid, any applicable purchase and net amount of the cheque drawn.

Internal Control System

Internal Control Defined

SAS 1 (Section 320) defines internal control as:
"Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies".

Many people interpret the term internal control as three steps taken by a business to prevent employees' fraud. Actually such measures are rather a small part of the internal control. The basic purpose of internal control is to promote the efficiency operation of an organization the system of internal control consists of all measures employed by an organization to:

- Safeguard assets from waste, fraud and inefficient use
- Promote accuracy and reliability in accounting records
- Encourage and measure compliance with company policies
- Evaluate the efficiency of operation

In short internal control consists of all measures taken to provide management with assurance that everything is functioning as it should.

Internal Check

A system of internal check is an arrangement of staff duties whereby no one person is allowed to carry through and to record every accept of a transaction, so that without collision between two or more persons, frauds is prevented and at the same time the possibility of error are reduced to a minimum.

Scope of Internal Control

Internal control extends beyond the accounting and financial functions, its, scope is company wide and touches all activities of organization. It includes the methods by which top management delegates' authority and assigns responsibility for such functions as selling, purchasing, accounting, verifying and producing. Internal control also includes the program for the preparing, verifying and distributing to various levels of supervision those current reports and analysis that enables executives to maintain control over the variety of activities and functions that constitute a large corporate enterprise.

Process Costing

To account for the costs associated with certain revenue producing activities requires a system for the accumulation of cost data on a systematic basis. In addition, costs should be recorded in such a manner as to provide a sound basis for analysis and control.

There are two approaches to cost accumulation. Job order costing and process costing under process costing, accounting data are accumulated by department or other cost center and averaged overall of the production that occurred in the specific cost center as stated above under a process cost system costs are accumulated according to each department, cost center of process. The average unit cost for a day, week or year is obtained by dividing the department cost by the number of units (Tons, liters, etc) produced during a year.

The process cost system is used where products are manufactured under mass production methods or by continuous processing. Industries that use process costing methods are commonly, paper, steel, chemicals, textiles, assembly type processes such as automobiles, washing machines, and electric appliances would use process costs.

Characteristics of process control system

- ✓ Costs are accumulated by department or cost center.
- ✓ Each department has its own general ledger work in process inventory account. This account is debited with the processing costs incurred by the department and credited with the costs of completed units transferred to another department or to finished goods.
- ✓ Equivalent units are used to restate work in process inventory in terms of completed units at the end of a period.
- ✓ Unit costs are determined by department or cost center for each period.
- ✓ Completed units and their correspondence costs are transferred to next department or to finished goods inventory.
- ✓ Total costs and unit costs for each department are periodically aggregated, analyzed and calculated by use of departmental cost of production reports.

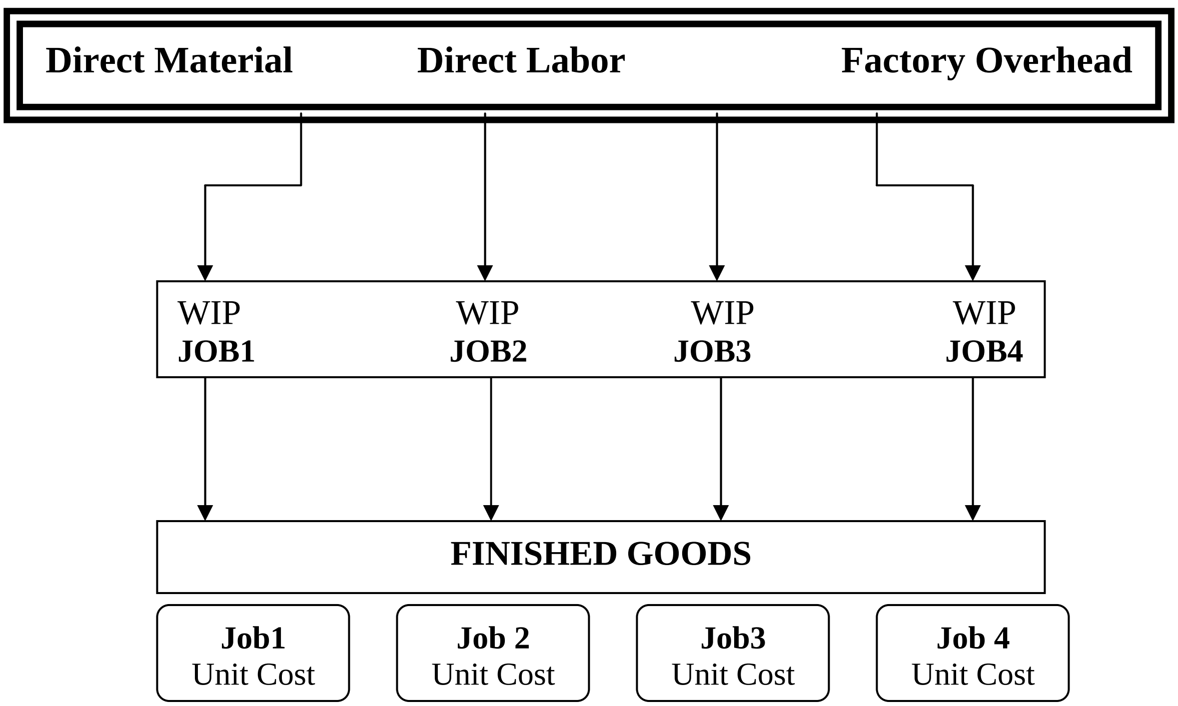
Comparison of job order and process cost system

- A job order cost system is most suitable where a single product or batch or products are manufactured according to a customer's specifications. A process cost accumulation system is used when products are manufactured by either production techniques or continuous process.

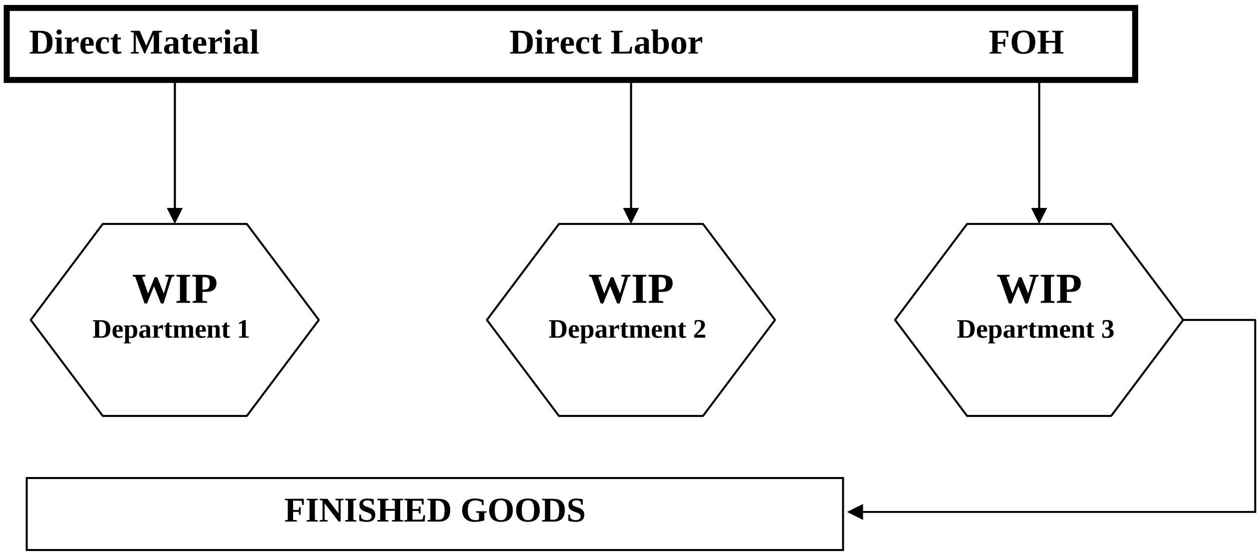
- Process costing is suitable when homogenous products are manufactured in large volumes. While in job order costing there is only one identical unit to product.
- Under job order costing accumulation system the three elements of a product's cost (i.e. direct material, direct labor and factory overhead) are accumulated according to identifiable job. Individual works in process inventory subsidiary cost sheets is setup for each job and are charged with the cost incurred in the production of the specifically ordered units. Upon completion of each job, its cost is transferred from work in process to finished goods inventory.

Under process costing system the three basic elements of a product, cost are accumulated according to department or cost center.

JOB ORDER COST SYSTEM



PROCESS COST SYSTEM



Accumulation of Costs

In a process cost system procedures must be developed to:

- Accumulate materials, labor, and FOH by department.
- Determine the unit cost for each department.
- Transfer costs from one department to the next.
- Assign cost to work in process.

The accumulation of costs is described below: -

Material Costs

In a process cost system the number of requisitions or charges for materials is far less than in job order system, since charges are made to departments' rather to individual jobs. In some industries the type and quantity of materials may be specified by formulas or engineering specifications. Where there is a continuous use of the same materials, the usage each day or week is obtained from consumption reports rather than individual requisitions.

The journal entry for charging materials would be:

Work In Process Material Department A	Dr		
		Material Control Account	Cr

Some companies use a slightly different version of entry as follows:

Work In Process Material Department A	Dr	
Stores		Cr

Labor Costs

The detail of accumulating labor costs by departments is also less than accumulating the same costs by individual jobs under jobs order system. Labor costs to departments may be summarized in the payroll distribution entry as follows:

Work In Process Labor Department A	Dr	
Work In Process Labor Department B	Dr	
Payroll		Cr

The entry may also be written as:

Labor in Process Department A	Dr	
Labor In Process Department B	Dr	
Payroll		Cr

Factory Overhead Control Costs (FOH)

There is a great difference between jobs order costing and process costing with respect to factory overhead than with material or labor costs. Generally, production is more stable for process costing from month to month, since products are made for stock rather than to order:

The entry-charging overhead is:

Work In Process Factory Overhead Department A	Dr	
Work In Process Factory Overhead Department B	Dr	
Applied Factory Overhead		Cr

An alternative entry is:

Work In Process Factory Overhead Department A	**Dr**	
Work In Process Factory Overhead Department B	Dr	
Factory Overhead Control		Cr

Departmental Transfers:

Process costing is ordinarily used where products require a number of different production operations, which are performed in two or more departments or cost centers. For example, the first operation may be performed in department A, such as matching or mixing process. After completion the units are transferred to department B, for an assembly or refining process. When this is completed the units are transferred to finished goods. The journal entry to record the transfer of goods from department A to the department B would appear as follows:

Work In Process Department B	Dr		
		Work In Process Department A	Cr

Flow of Units

The flow of units (in terms of quantity) through process costing system can be summarized by the following equation:

Beginning units in process + Units started in process or transferred from previous department =
Units transferred out + Units completed and on hand + Units in process

Here we are discussing no opening inventory thus flow of units would look like as:

Units started in process or transferred from previous department =
Units transferred out + Units completed and on hand + Units in process

When any of the terms in the equation are known, the missing component can be computed from the equation. Note that all the components are not necessarily present in each situation.

Flow of Costs

Using T-account can summarize the flow of costs in the process costing system. The data presented in these accounts show how various departmental costs are tied into the costing cycle.

Material Inventory	

Payroll

Factory Overhead

Work In Process Department A

Work In Process Department B

Work In Process Finished Goods

FOH Applied

Finished Goods

Cost of Goods Sold

Equivalent Units of Production

It is rare to have all units placed in production during the month completed and sent to the next department by the end of the period. In most cases there will be ending inventories of work in process at different stages of completion for each month. To allocate costs when inventories of partially finished goods are involved, all units must be expressed in terms of completed units. This is done by means of a common denominator known as “EQUIVALENT UNITS OF PRODUCTION”. By using the equivalent unit figure, the unit cost for the period would be included in the cost of completing any work in process at the beginning of the period and the cost to date of work in process in process at the end of the period.

Three separate equivalent production computations are usually needed, one for material and other for labor and other for FOH (conversion cost), since the degree of completion for each is rarely the same. There are two principal methods for costing work in process inventory.

- Average Costing
- FIFO Costing

Both these would be discussed in detail when we shall discuss equivalent production with opening work in process inventories. ***Equivalent units*** are computed as follows:

Units completed and transferred + Ending work in process*Degree of completion %

Cost of Production Report

The cost of production report is an analysis of the activity in the department or cost center for the period. All costs chargeable to a department or cost center are presented according to cost element.

The cost of production shows all costs chargeable at a department or cost center for the period. Since its principal objective is the control of costs, detailed data relating to the total cost and unit costs must be provided. Typically, the cost breakdown is made by cost elements at the end of the months.

Following is the basic parts of cost production report.

Quantities or Quantity Schedule

This section accounts for the physical flow of units into and of a department. It has two sections.

1. Units to account for

- Units in beginning inventory
- Units started in process / units received from previous department
- Units added by the current department

2. Units accounted for as follows

- Units completed and transferred out
- Units completed and on hand

- Units still in process at the end of period
- Units lost (normal or abnormal)

Cost to account for / cost charged to department

This section accounts for the incidence of costs that were:

- Cost from the beginning of the year
- Cost transferred in form previous department
- Cost added by the current department

Total cost to account for / cost accounted for as follows:

This section accounts for the disposition of costs charged to the department. Where the costs, cost of completed units

- Cost of completed units transferred out to another department or finished goods.
- Cost of completed on hand (that couldn't be transferred to next department due to certain reasons e.g. lack of storage facility in next department etc)

Cost of work in process at the end of period

- Cost of units still in process at end of the period.

It should be noted that the total of the ***cost to account for must be equal to cost accounted for***.
The cost of production report may be greatly detailed or may show only totals depending on the needs of the business and the desire of management.

SAIMA BUTT Corporation
Cost of Production Report
Department A

Quantity schedule

Units to account for	**Units**
Units started in process	……..
Units accounted for as follows	
Units completed and transferred out	……..
Units completed and on hand	……..
Still in process (% age material, %age conversions cost)	……..

Cost to account for

	Total Cost Rs	Unit Cost Rs
Direct material	…….	……..
Direct labor	…….	……..
Factory overhead	…….	……..
Total cost accounted for	…….	……..

Cost accounted for as follows

Cost of units completed and transferred out (…..units @ Rs…..)
Cost of units completed and on hand ( )
Cost of work in process inventory – ending
Direct material (units in process * degree of completion * per unit cost)
Direct labor (units in process * degree of completion * per unit cost)
FOH (units in process * degree of completion * per unit cost)

Computation explained:
Equivalent production =
Units transferred out + units completed & on hand + WIP (ending) * degree of completion
Cost per unit
Material = cost of material / equivalent production
Labor = cost of labor / equivalent production
FOH = cost of FOH / equivalent production

SAIMA BUTT Corporation

Cost of Production Report
Department B

Quantity Schedule

Units to account for		Units	Units
Units received from previous process A		…….	
Units accounted for			
Units completed and transferred out		…….	
Units completed and on hand		…….	
Still in process (Degree of completion)		…….	

Cost to Account For

	Total Cost Rs	Unit Cost Rs
Cost received from previous department	………	……….
Cost added by current department		
Direct material	………	……….
Direct labor	………	……….
Factory overhead	………	……….
Total cost added	………	……….
Total cost accounted for	………	……….

Cost Accounted for as follows

Cost of units completed and transferred out (….. @ …..)		
Cost of units completed and on hand ( )	………	……….
Cost of work in process inventory – ending		
Cost from previous department		
"(Units in process * per unit cost of previous department)………		
Current department WIP		
Material (………)	……….	
Labor (……….)	……….	
FOH (……….)	……….	
Total WIP	……….	………..
Total cost accounted for as follows		………..

Equivalent production =

Units completed & transfer out + WIP (degree of completion) + units completed & on hand

Cost per unit

Material = cost of material / equivalent production

Labor = cost of labor / equivalent production

FOH = cost of FOH / equivalent production

Addition of material

Many manufacturing operations require direct material only in the initial production department; subsequent departments generally add direct labor and factory overhead but no additional direct materials. Some manufacturing operations, however, call for the addition of direct materials in subsequent departments.

Direct material added subsequent to first department may have following consequences:

- No increase in units, but an increase in cost. For example, adding tires to the production of an automobile, manufacturing toys etc, where material are added to color the toys.
- Increase in units with no increase in cost (e.g. adding water when producing paint if a company is not charged for the cost of water used).
- Increase in units and in cost (e.g. adding sugar when producing a beverage drink).

Situation No. 1
When the addition of direct material is made after the first department and the number of units produced doesn't increase, there are no changes in the procedure followed to prepare a cost of production report. Subsequent department that add direct materials will account them in the same manner as conversion cost.

Situation No. 2 & 3
In manufacturing processes that uses weight or volume to measure units of production, the addition of direct material in subsequent department will usually have the effect of increasing the number of units and possibly the total cost.

The number of final units increases, while unit cost decreases. When this occurs, an adjustment fore the previous department's unit cost becomes necessary, because the same total cost will be allocated over a greater number of units.

Example

Assuming the following data for the department 2:

Cost transferred in from Department 1	Rs. 50,000
Units transferred in from Department 1	Rs. 20,000
Additional units put into process in Department 2	Rs. 5,000

The preceding department's unit cost to be used in Department 2 is computed as follows:

$$\frac{\text{Cost transferred in form Department 1}}{\text{Total units put into process}}$$

$$\frac{50,000}{25,000}$$

Lost of Units in Production Process

Units that are put in process may be lost during the production due to evaporation, shrinkage, and leakage in containers, damages or there may be lot of reasons for loss of units. According to this we classify the loss of units as:

1. Normal Loss
2. Abnormal Loss

1. Normal Loss

Normal loss occurs during efficient production process, that is anticipated and unavoidable loss; this is inherent in production process and cannot be stopped. Examples include loss due to evaporation, shrinkage etc.

2. Abnormal Loss

The loss that is the result of inefficient production staff performance, that cannot be anticipated and which can be stopped is abnormal loss. Examples include loss due to leakage in container, damage due to less overstocking in a small container etc.

Treatment of Normal Loss

Following is the accounting treatment for the normal or unavoidable loss of units: there are two theories for this:

Units lost in first department
Such losses reduce the number of units produced, thereby reducing equivalent production while increasing the unit cost. No special adjustment is necessary. Only in the quantity they are shown as a separate item. They have no other effect on the procedure of preparing the cost of production report.

Units lost after the first department

When units are lost in departments subsequent to the first, an adjustment for lost units must be included in cost reports. Such an adjustment may be calculated by either of the two methods.

Method 1

First establishing a new unit cost for work done in the previous department and then subtracting the old unit cost from the new one determine the adjustment for lost units. These conditions may be performed using the following formula.

$$\textbf{New adjusted unit cost} = \frac{\textbf{Cost transferred in from previous department}}{\textbf{Units received from previous department – unit lost}}$$

Adjustment for unit lost = New adjusted cost – unit cost of previous department
(Units received from previous department – Units lost = Goods units)

Method 2

Allocating the total cost over the number of units actually produced as follows may also derive the adjustment for unit lost:

$$\frac{\textbf{Adjustment for unit lost total cost lost}}{\textbf{Units received from previous Department – units lost}}$$

Lost units where material added increase units in subsequent department

When addition of material in department subsequent to the first causes an increase in total number of units, the adjustment for unit lost is based on the net effect of the increase and the loss.

a. Thus, if number of lost units is less than the number of additional units, the formula is

   Adjusted units cost received from previous department =

$$\frac{\text{Adjusted unit cost received form previous department}}{\text{Units received from previous department + Net additional units}}$$

b. When the number of lost unit is greater than the number of additional units the resulting net decrease is treated by either of the following methods:

   Method 1

Net Unit Cost = $\frac{\text{Cost transferred in from Department 1}}{\text{Units received from previous dept.-net lost units}}$

Method 2

Total cost Lost = Net lost units * old unit cost

Adjustment for lost units = $\frac{\text{Total cost lost}}{\text{Units received from previous dept-net lost units}}$

Unavoidable Loss or Abnormal Loss

Units are lost through various reasons such as evaporation shrinkage, poor yield or spoiled work. In many instances the nature of the operation is such that certain losses cannot be avoided. Therefore, a common method of accounting for lost units doesn't show the cost of the lost units as a separate item of the cost but spreads the costs over the remained goods units. This method doesn't require a separate journal entry to charge a spoiled or unit lost or some other overhead account with the costs of unit lost. It is the method used for handling lost units in this discussion.

Beginning of Process

Lost units may occur at the beginning or at the end of the period. Ordinarily for purposes of practicability and simplicity it is assumed that units lost at the beginning or during a process were never put into process. When this method is used, the cost of units lost is spread over the equivalent production of units produced i.e. units completed and units still in process.

Ending of Process

When lost units occur at the end of the process and firm's process cost system is designed to account for this possibility the cost of lost units is charged to completed units only. No part of this loss is charged to units in process.

If lost unit costs are charged to the profit and loss account

As is the case of abnormal loss the same pattern of computations would be used except that costs would be distinguished as follows: -

Transferred to next Department (40,000 units @ Rs. 3.35)	Rs. 134,000
Transferred to profit and loss account (2,000 units @ 3.35 with fractional adjustment)	Rs. 6,720
	Rs. 140,720

If cost of such abnormal loss spoilage is charged to FOH
The cost of production report will show as:

Transferred to next department (40,000 units @ 3.35)	Rs. 134,000
Transferred to FOH (2,000 units @ 3.35or 40,000 @ 0.1675)	Rs. 6,700
	Rs. 140,720

If part of the loss is normally avoidable and another is avoidable
In this case the accounting treatment differs. Normal loss is to be born by good production and is treated as discussed previously with consideration of the time the loss was incurred i.e. beginning, during or end of the process.

In case of avoidable losses in general, the loss due to abnormal factors in particular it is logical that costs attributable to the lost units, keeping in view of the stages of loss, should not be born by good units. The applicable cost should therefore to be credited to work in process account and debited to the profit and loss account for example, if 1,000 units were lost at 50% completion stage due to some abnormal factor the equivalent production for calculation of unit cost in terms of labor and FOH would have been.

Units transferred out + Work in process ending inventory * degree of completion+ Completed portion of unit lost = Equivalent production

40,000 + 3,000/3 + 1,000/2 = 41,500 units

Beginning Work in Process Inventories

The existence of beginning work in process inventories creates a problem in process costing following are the some of the question that must be asked:

1. ***Should a distinction be made between completed units from beginning work in process inventories and completed units from the current period?***

2. Should all the units completed during the current period be included at 100% in equivalent production regardless of the stage of completion of beginning work in process inventory?

3. Should the cost of beginning work in process inventory be added to costs, which have been added to production during the current period to arrive at cost added during the period?

The answers to these questions will depend upon the method to account for beginning work in process inventories i.e. average or FIFO. Under average or

weighted average method, the costs of beginning work in process inventory are added to the period's current costs, and this total cost is divided by equivalent production to arrive at a weighted average equivalent unit cost. Costs associated with the units will in process lost their identity because of the merger. The beginning work in process inventory cost is therefore treated as if it were a current period cost. No distinction is made between completed units from beginning work in process inventory and completed units from new production. There is only one final cost for all completed units i.e. a weighted average unit cost.

Under FIFO costing, the units in the beginning work in process inventory are reported separately from units of the current period. Beginning works in process units are assumed to be completed first before units started during this period are completed. Cost associated with beginning work in process units are separated from cost of units started and completed during the period. Because of this separation, there are two final equivalent unit cost figures for completed units.

Comparison Between Average & FIFO methods

Points	Average Costing	FIFO
Overview	No distinction is made between completed units from beginning WIP inventory & completed units from current period.	Units in the beginning WIP inventory are reported separately from units of the current period.

Cost of Production Report

1. Quantities	Same procedure for both methods	
2. Equivalent Production	All units during the period are included as 100% complete regardless of the stage of completion of beginning WIP.	Beginning WIP is included in equivalent production only to the extent of the work done to complete these units during the current period.
3. Cost to account for	Cost of beginning WIP inventory is added to costs, which have been added to production during the present period to arrive at cost to account for.	Beginning WIP inventory costs are isolated and do not enter into the computation of equivalent production.
4. Cost accounted for	Transferred out costs are determined by multiplying equivalent units by the equivalent unit cost.	Transferred out costs are assumed to come first from beginning WIP and then from current production.
Comments	FIFO provides a better product cost information than weighted average cost because it is more closely match the physical flow of units.	

Flow of units

The flow of units (in terms of quantity) through process costing system can be summarized by the following equation:

Units in process at beginning + Units started in process or transferred
= Units transferred out + Units completed and on hand + Units in process

When any of the terms in the equation are known, the missing component can be computed from the equation. Note that all the components are not necessarily present in each situation.

Equivalent Units of Production

It is rare to have all units placed in production during the month completed and sent to the next department by the end of the period. In most cases there will be beginning and ending inventories of WIP at different stages of completion for each month.

To allocate costs when inventories of partially finished goods are involved, all units must be expressed in terms of completed units. This is done by means of a common denominator known as ***"EQUIVALENT UNITS OF PRODUCTION".*** By using the equivalent unit figure, the unit cost for the period would be included the cost of completing any work in process at the beginning of the period and the cost to date of work in process at the end of the period.

Three separate equivalent production computations are usually needed, one for material and other for labor and other for FOH (conversion cost), since the degree of completion for each is rarely the same. There are three principal methods for costing work in process inventory.

1. Average Costing
2. FIFO Costing
3. LIFO Costing (this method is not advocated by a large number of writers and moreover it is important for process costing purposes, therefore it is not discussed here)

Average Costing

Under this method the opening WIP inventory costs are merged with the costs of the new period and a new average cost is obtained. Thus, there is only one average cost of goods completed.
Equivalent units are computed as follows:

Units completed and Transferred + Ending WIP * degree of completion %

FIFO Costing

Under this method the opening WIP inventories are separated from additional costs applied in the new period. Thus, there is two unit costs for the period.

1. Opening WIP units completed
2. Units started and finished in the same year

Under FIFO, the beginning WIP is assumed to be completed and transferred first. The ending WIP is then assumed to be from the goods put into production during the period. Thus, ending WIP is calculated from current period unit costs according to the degree of completion.

Equivalent Production under FIFO, is calculated as follows:

Units completed and transferred **–** opening WIP (regardless of degree of completion)
+ Amount needed to complete beginning WIP + Amount completed in Ending WIP

Assets

Assets are economic resources that are owned by a business and are expected to benefit future operations. In most cases, the benefit to future operations comes in the form of positive future cash flows. The positive cash flows may come directly as the asset is converted into cash (collection of a receivable) or indirectly as the asset is used in operating the business to create other assets that result in positive future cash flows (building and land used to manufacture a product for sale). Assets may have definite physical from such as buildings, machinery, or an inventory of merchandise. One the other hand, some assets exists not in physical or tangible form, but in the form of valuable legal claims or rights; examples are amounts due from customers, investments in government bonds, and patent rights.

One of the most basic and at the same time most controversial problems in accounting is determining the dollar amount for the various assets of a business. At present, generally accepted accounting principles call for the valuation of most assets in a balance sheet at cost, rather than at their current value.

Types of Assets

i. Current Assets

Which are either cash or easily convertible into cash. In fact they are acquired or create with a view to convert or sell them for cash. The examples of such assets are cash in hand, cash at bank, accounts receivable, notes receivables, merchandize and inventories etc.

ii. Non Current Assets

These are the assets, which are acquired with a review to hold them and earn income other than the business income. The examples of such assets are investment, shares of other companies, government securities etc.

iii. Fixed or Plant Assets

These assets are acquired to retain and use in business operation e.g. land, building, machinery and plant, motor vehicles etc.

iv. Intangible Assets

The assets, which are not physically touchable, but still valuable for business enterprise e.g. preliminary expenses, trade marks, goodwill etc.

Assets Depreciation

Depreciation:

The allocation as an expense of the cost or value of an asset, less the net amount expected to be recovered on disposal of that asset, among a series of accounting periods.

Accumulated Depreciation

The amount recorded as the total reduction of the value of an asset since acquisition due to depreciation.

Causes of Depreciation:

The tow major causes of depreciation are physical deterioration and obsolescence.

1. Physical Deterioration

Physical deterioration of a plant asset results from use, as well as form exposure to sun, wind, and other climatic factors.

2. Obsolescence

The term obsolescence means the process of becoming out of date or obsolete. An airplane, for example, may become obsolete even though it is in excellent condition; it becomes obsolete because better plans of superior design and performance have become available.

Factors that affect the Computation of Depreciation

The following items affect the computation of depreciation for an account period:

a. Cost:

Cost is the net purchase price of a plant asset plus all reasonable and necessary expenditure spent to get the asset in place and ready for use.

b. Book Value

Book value of a plant asset is its cost minus the related accumulated depreciation. Accumulated depreciation is a contra-asset account, representing that portion of the asset's cost that has already been allocated to expense. Plant assets are shown in the balance sheet at their book values (carrying values).

c. Residual Value

The residual value of an asset is its estimated net scarp, salvage, or trading value as of the estimated date of disposal.

Estimated Useful Life

The estimated useful life of an asset is the total number of service units expected from the asset. Service units may be measured in terms of years the asset is expected to be driven, or similar measures. In figuring the estimated useful life of an asset, the accountant should consider all relevant information including:

1. Past experience with similar assets.
2. The assets present condition.
3. The company's repair and maintenance policy.
4. Current technological and industry trends.
5. Local condition such as weather.

Method of Computing Depreciation

Many methods are used to allocate the cost of plant asset to accounting periods through depreciation. Each of them is proper for certain circumstances. The most common methods are:

1. Straight Line/Original Cost Method
2. Declining Balance Method
3. Sum of the year's Digits Method
4. Units of Production Method

Measures of Assets Liquidity

Liquidity refers to a company's ability to meet its continuing obligations as they arise. For example, a company may have borrowed money and must make quarterly interest and principal payments to a financial institution. A company may purchase its inventory and other necessities on credit and pay the seller within 30 days of the purchase date. We have emphasized through out this text the importance to investors, creditors, and other users of financial statements of information that permits them to assess the amount, timing, and uncertainty of future cash flows from the enterprise to them. As a result, analyzing an enterprise's liquidity and its credit risk is very important and is a natural place for us to start our study of analyzing financial statements.

In this section, we learn about ways to assess liquidity, starting with the classified balance sheet and then looking at a number of ratios that are commonly used to glean information about liquidity form the financial statements.

A classified balance Sheet

In a classified balance sheet, assets usually are presented in three groups: (1) current assets, (2) plant and equipment, and (3) other assets. Liabilities are classified into two categories: (1) current liabilities and (2) long-term debt. The classifications current assets and current liabilities are especially useful in evaluating the short-term liquidity or solvency of the business entity.

Current Assets

Current assets are relatively liquid resources. This category includes cash, investment in marketable securities, receivables, inventories, and prepaid expenses. To qualify as current assets, an asset must be capable of being converted into cash or used up within a relatively short period of time, without interfering with normal business operations.

Current assets are tied to an enterprise's operating cycle. Most companies have several operating cycles within a year. This means that they take cash and purchase inventory, sell the inventory, and collect the receivable in cash several times period used to identify current assets is one year, so any asset that is expected to be converted into cash within one year is classified as a current asset in the enterprise's balance sheet. Some enterprise, however, have relatively long operating cycles. For example, a company that constructs very large items (for example, airplanes or ships) may have a production period that extends well beyond one year. In these cases, the length of the company's operating cycle is used to define those assets that are classified as current. While most current assets are expected to be converted into cash, we also include as current assets those that will be used up or consumed during the year or operating cycle, if longer. For example, prepaid expenses are classified as current assets on the basis that their having been paid in advance preserves cash that otherwise would have to be paid in the current period. Combining these ideas, current assets can be defined as assets that are expected to be converted into cash or used up within the next year or operating cycle, whichever is longer.

In a balance sheet, current assets are listed in order of liquidity. (The closer an asset is to becoming cash, the greater its liquidity). Thus cash always is listed first among the current assets, usually followed by investments in marketable securities, receivables, inventory and prepaid expenses in that order.

Current Liabilities

Current liabilities are existing debts that are expected to be satisfied by using the enterprise's current assets. Among the most common current liabilities are notes payable (due within one year), accounts payable, unearned revenue, and accrued expenses, such as income taxes payable, salaries payable, or interest payable, in the balance sheet, notes payable usually are listed first, followed by accounts payable; other types of current liabilities may be listed in any sequence.

The relationship between current assets and current liabilities is as important as the total dollar amount in either category. Current liabilities must be paid in the near future, and the cash to pay these liabilities will come from current assets. Thus decision makers evaluating the short-term liquidity of a business often compare the relative amounts of current assets and current liabilities, whereas an evaluation of long-term credit risk requires a comparison of total liabilities.

Chapter 8

Accounts

- *Accounting terminologies*
- *Cash book*
- *Account equation*
- *Ledger*
- *Bank reconciliation statement*

Definition, Purpose and Terminologies of Accounting

Introduction

The basic objective of commerce education is to produce skilled personnel for looking after the administration and financial affairs of business concerns. As such this field of education includes the subjects like Economics, Commerce, Banking, Insurance, Management etc. Accounting is one of the most important subjects of this field. In this subject the learner is given education and training for recording and summarizing of the business transactions in various books.

During the earlier part of the civilization, when the business activities were very small, there were no definite principles for the recording of the business transaction. A person may use any method to record his dealings with other peoples. But with the development of economic and business activities, the recording of the business transaction has become an art. With the introduction of double entry book keeping system, this art has developed into an organized science, which has its own principles and rules. Apart from this, the method of recording the business transaction and terminology used in Accounting differs from country to country. Due to this, various systems of Accounting are found in the world. In this section we shall explain and illustrate basic principles of double entry book keeping system, as adopted in Pakistan under American terminology. However, first of all it is necessary to understand the nature of Accounting and the basic terms used in this subject.

Nature of Accounting

Accounting deals with communicating the business activities of a firm to individuals and various sections within the firm and also to the outsiders. In other words, it is an art, which records all the business transaction and events of financial character in a prescribed manner classifying them in the significant manner. This classified record is analyzed to prepare summary results, which are communicated to the concerned parties in the shape of reports and statements.

“This technique of recording, process of identifying, method of measuring and language of communicating business transactions is Accounting”.

From the above definition, we can ascertain that Accounting is:

1. Recording of business data
2. Classification of recorded data
3. Analysis of summarized data
4. Preparation of reports

Book Keeping and Accounting

Most of the people are confused that bookkeeping and Accounting are alternative terms. Though these are related terms but not alternative at all. Book keeping is mainly concerned with the recording of business data in a defined manner. On the other hand Accounting is concerned with the classification of recorded data and preparing the summary reports. However, some times the work of book keeping and Accounting is so merged as no definite line of separation can be drawn.

System of Book Keeping

There are two systems of book keeping i.e. Single Entry System and Double Entry System. The main features of these two systems are explained as under:

1. Single Entry System:

It is an incomplete record of the business transaction and therefore, unreliable for reference and analysis purposes. There is no definite method and principle of this system. The small traders use this system just to meet their needs of recording credit transactions. As this system has no principle, it is not acceptable by various government agencies. The very small traders, having no legal responsibility of maintaining proper books of accounts adopt this system to record their transactions. They calculate their earnings to valuing the net increase in their assets. This system does not indicate the proper earnings and the financial position of the business.

2. Double Entry System:

Under this system, the double effect of every business transaction is recorded. This means that all the cash and credit transactions of the business are recorded indicating the two fold aspect of each transaction. For example, when merchandise are sold for cash, the increase in cash as well decrease in stock of merchandise is recorded. Similarly, when the merchandise is sold for credit, the increase in receivables and decrease in stock of merchandise is recorded. This means that every benefit in business have its corresponding loss. There is the famous principle of the Double Entry System and reads, as ***“Every Debit must have its corresponding credit”***. Therefore under Double Entry System, every debit and its corresponding credit are recorded in the books of accounts.

Advantages of Double Entry System:

The double entry system has the following advantages over the single entry system.

1. It is helpful in proving the accuracy of the record by the principle that debit must be equal to credit.
2. It is a complete record of all the business transactions and it can provide any type of information needed by the owner or any other related person or government agency.
3. The correct and reliable results of the business can be ascertained at any time.
4. The financial position of the business can be ascertained.
5. This system provides an opportunity for analysis of the Accounting record and helpful for the future planning of the business.

Special Fields of Accounting

With the development of business activities and specialization in various fields of these activities a number of branches for special study in Accounting have been evolved. Some important special fields of Accounting are as under: -

1. Financial Accounting

This field of Accounting concerns with general accounting system. It is engaged in recording the business transactions in books and preparation of periodical reports for managers and general public.

2. Cost Accounting

The main objective of this field of accounting is to control the cost of production and distribution. It checks the efficiency of producing, selling and administrative departments by applying actual and pre-determined cost techniques. It also shows effect on cost with changes in the volume of production and sales.

3. Management Accounting

This field of Accounting mainly concerns with the selection of best among various alternatives. It uses all techniques of historical, estimated and actual data as a device toward positive change.

4. Auditing

It is the examination of Accounting records. The purpose of examination is to check the fairness and accuracy, its reconciliation with prescribed policies and procedure.

Objectives of Accounting

The information communicated by the Accounting is needed for following purposes: -

I. Owners of the business wants to know their results of activities i.e. profit earned or loss suffered and also the financial strength of the business.
II. The prospective investors and creditors of the concern are interested to know the profitability and financial status of the business.
III. Employees want to know the stability, future prospect and scope of the business.
IV. The management needs various kinds of classified information for decision-making techniques.
V. Various government agencies are also interested in firm's activities and incomes.

In view of the above, we can derive that, the knowledge of Accounting is not merely needed by those who are engaged in any sort of Accounting profession, but those who are related to business activities and general public at large, must be able to understand the language of Accounting.

Basic Terminology

In every field of study some words are used with their specific meanings. There are called as terms. In Accounting also some basic terms are used. These terms and their meanings are explained as under: -

1. Business

It is a general term and includes any activity undertaken for purpose of earning profits, such as buying and selling of merchandise, rendering services and manufacturing goods. The business houses engaged in buying and selling of goods are called as merchandising or trading concerns, while those engaged in providing any services are called service concerns. The firms engaged in producing some goods are called as manufacturing concerns.

2. Transactions

Any dealing between two persons or things, which can be measured in terms of money, is called as business transaction. The business transaction is of two types

i.e. cash transaction and credit transaction. The former involves an immediate receipt of cash while in later case; the cash is paid at any future date.

3. Voucher

The documentary evidence of business transaction is called as voucher. The voucher may be a cash memo, bill, invoice, etc.

4. Account

It is a device, which contains a systematic record of increase or decrease in an item during a particular period.

5. Merchandize

Things bought by a firm for purpose of reselling them in same condition are called merchandize or goods.

6. Purchases

The cost of merchandize bought is called purchases. When the price of goods purchased is paid in cash, it is called as cash purchases, and when it is paid on any future date, it is called as credit purchases.

7. Sales

The amount earned from sale of goods is called sales. If this rice is received in cash, it is called cash sales, and when it is to be received on any future date. It is called as credit sales.

8. Revenue

All sorts of income received or accrued is called as Revenue. This revenue may be earned from sale of merchandise or by rendering services for the customer. It is also earned in shape of commission, interest, discount etc.

9. Expenses

To achieve the objective of business, certain payments are made. These payments or obligations are expenses of business. The examples of such expenses are freight, cartage, salaries, rent, advertisement etc.

10. Assets

Any thing valuable possessed by a firm with the following three characteristics qualifies as assets: -

i. The legal title of ownership
ii. Right to use
iii. Right to dispose

The examples of assets are cash, building, furniture and fixtures, machinery and plant, accounts receivables, notes receivable, investments, inventories etc. According to the character of their liquidity and purpose of their holding, the assets can be sub-divided into following groups: -

i. Current Assets

Which are either cash or easily convertible into cash. In fact they are acquired or create with a view to convert or sell them for cash. The examples of such assets are cash in hand, cash at bank, accounts receivable, notes receivables, merchandize and inventories etc.

ii. Non Current Assets

These are the assets, which are acquired with a review to hold them and earn income other than the business income. The examples of such assets are investment, shares of other companies, government securities etc.

iii. Fixed or Plant Assets

These assets are acquired to retain and use in business operation e.g. land, building, machinery and plant, motor vehicles etc.

iv. Intangible Assets

The assets, which are not physically touchable, but still valuable for business enterprise e.g. preliminary expenses, trade marks, goodwill etc.

11. Equities

The rights possessed by the owners or outsiders against the assets of the firm are called as equities. The equities are further divided into two categories:

i. Owners Equity

It is capital invested by the proprietors/owners of the business. It is the claim of the owners on the assets of the enterprise.

ii. Liabilities

It is the claim of the outsiders against the assets of the enterprise. The liabilities may be of the following types: -

Short Term Liabilities: The liabilities, which are payable in near future (within one year) are called short-term liabilities. These are also termed as current liabilities. The examples are accounts payable, notes payable, bills payable, expenses payable, bank overdrafts etc.

Long Term Liabilities: These are the loans, which are raised for permanent finance of the firm. These are payable after number of years. The examples of long-term liabilities are long period bank loans, securities and debentures issued, mortgage loans etc.

12. Drawings

The cash or commodities withdrawn by the owner for his personal use from business are known as drawings.

13. Income Statement

One of the major objectives of Accounting is to know the results of the business. This means that profit earned or loss suffered is calculated at the end of accounting period. For this purpose a statement is prepared, where all the incomes of the period are added and all the expenses of that period is deducted. This statement is called as **"Income Statement".** Therefore the income statement is the summary of all the revenue and expenses relating to a financial period. A typical example of "Income Statement" is given as under: -

SAIMA BUTT PRINTING SERVICES
INCOME STATEMENT
For the year ended on 31-12-2005

	Rs.	***Rs.***
Revenue from services		50,000
Less: **Expenses:**		
Material used	25,000	
Salaries Expenses	500	
Taxes	200	
Carriage	100	
General Expenses	200	
Total Expenses		26,000
Net Income		24,000

14. Balance Sheet

Balance sheet represents the financial position of the firm on a certain fixed date, usually at the close of financial period. All the assets possessed by the firm are written on one side and equities on the other side. Both the assets and equities are grouped under various classifications. Both the sides are always in agreement. A typical form of balance sheet is given as under:

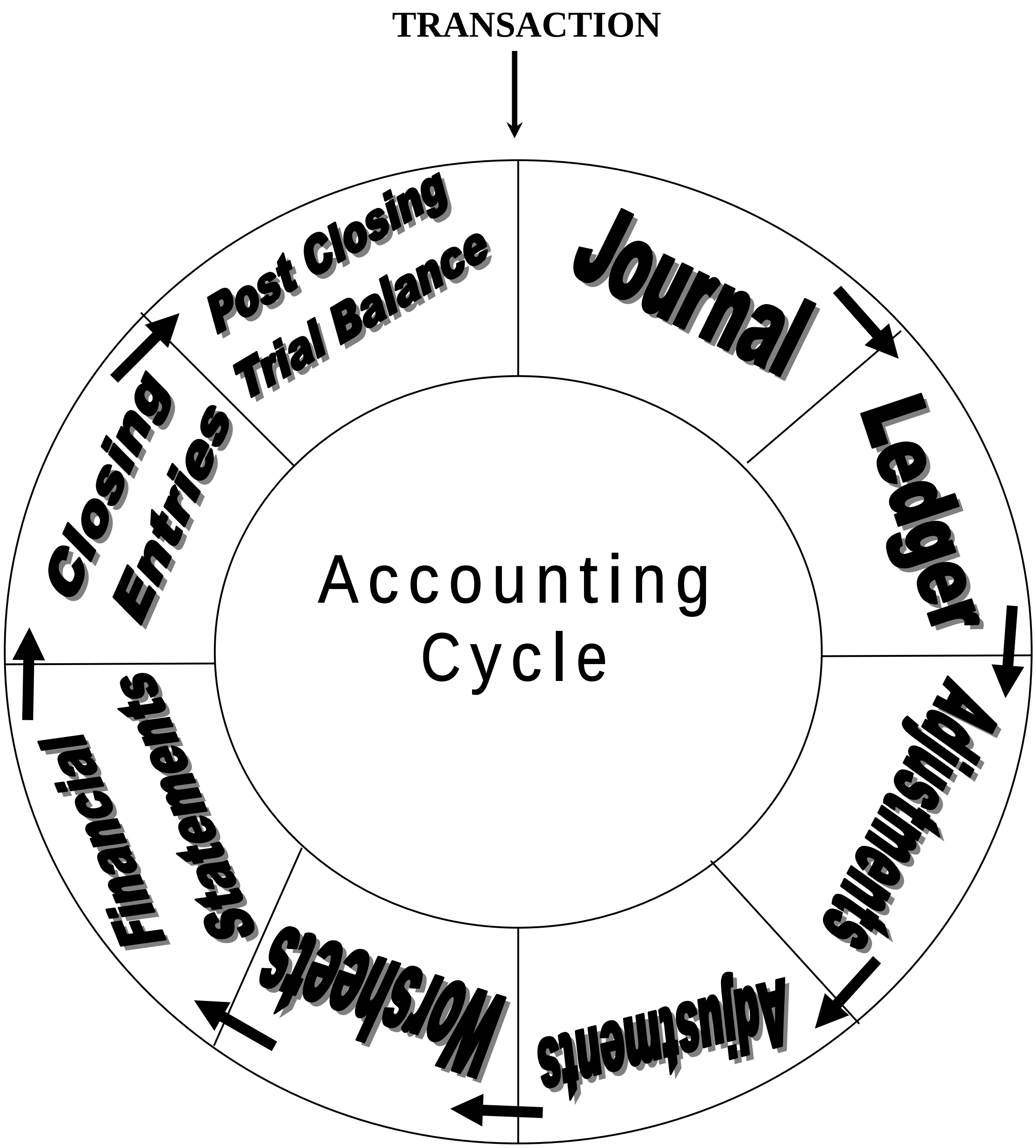
SAIMA BUTT PRINTING SERVICES
BALANCE SHEET
As on 31st December, 2005

ASSETS		
	Rs.	***Rs.***
Cash Assets:		
Cash	4,000	
Accounts Receivable	15,000	
Supplies	5,000	
Total Current Assets		24,000
Fixed Assets:		
Machinery	150,000	
Building	100,000	
Total Fixed Assets:		250,000
Total Assets		274,000
EQUITIES		
	Rs.	***Rs.***
Liabilities:		
Accounts Payable	40,000	
Notes Payable	10,000	
Total Liabilities		50,000
Owner's Equities:		
Saima's Capital	200,000	
Net Income	24,000	
Total Owner's Equities:		224,000
Total Equities		274,000

Accounting Cycle

When an accounting transaction occurs; it is recorded in various books and statements. The order of recording these transactions is called as "Accounting Cycle". As the various records are completed one after another in a proper

sequence, every step of record is called as a phase of accounting cycle. The various phases of accounting cycle are shown in the following diagram.



These phases are explained as under: -

1. Journal

When any transaction takes place, it is recorded in a book called as journal, at the time of its occurrence. It is also called as Daybook.

2. Ledger

From journal, the transaction is posted in another book, called as Ledger. In this book, the entries are classified under various heads of accounts. The ledger is balanced at frequent intervals.

3. Trial Balance

The balances taken from ledger are written in a two columns statement, which is called as Trial Balance. The Trial Balance is prepared to prove the accuracy of the record.

4. Adjustment

At the end of every accounting period, there are always some expenses, which are to be paid and some revenue is to be received. These incomes and expenses are adjusted after making some necessary journal entries.

5. Worksheet

After adjusting entries, the worksheet is prepared to incorporate and assemble the balance from trial balance and adjustments. The statement, where this work is done, is called as worksheet.

6. Financial Statement

This means the preparation of Income Statement and Balance Sheet at the end of every accounting period to know the net earning and financial position of the business. The financial statements are usually prepared from the worksheet.

7. Closing Entries

These are the journal entries, which are passed to close the revenue accounts at the end of every accounting period to know the net earning and financial position of the business. The financial statements are usually prepared from the worksheet.

8. Post Closing Trial Balance

The final phase of accounting cycle is the preparation of Post Closing Trial Balance. This is prepared to prove the accuracy of the record after the end of financial year.

CASH BOOK

In small business concern where only one person is employed for receipt and payment of cash, only one book is used for recording of cash received and paid. This book is called as **Cash Book**. Every page of the cash book is divided into two parts. The right hand side is used for payments and left hand side for receipts of cash. Three shapes of cash book are being used.

There are: -

1. Simple cash book
2. Two column cash book
3. Three column cash book

Any of the above cash book can be used by the firm according to its needs. The form and method of recording in all the above three kinds of cash book is discussed and illustrated below: -

1. Simple Cash Book

This type of cash book is used by such firms where receipts and payments are usually made in cash and cheques are not frequently used. Similarly, in such business, the discount is not allowed/received as custom of trade. Therefore, only one amount column is provided on receipt cash book is given as under: -

CASH BOOK

Receipts Payments

Date	Vr. No.	Description	Ref	Amount	Date	Vr. No.	Description	Ref	Amount

<u>Method of Recording:</u>

1. When cash is received, it is recorded on the debit side. The date of receipt is recorded under “Date”. The no. of receipt/voucher is written under “Vr. No.”. The name/nature of receipt is recorded under “Description”.

2. When the cash is paid it is recorded on the payment side. The various columns are entered in the same way as discussed above.

Posting into Ledger:

1. When cash book is maintained, there is no need to open cash account in ledger. Cash book is balanced, and this balance is transferred to trial balance/balance sheet.
2. All accounts on the debit side of the cash book are credited in the ledger under their respective heads.
3. All accounts on the credit side of the cash book are debited in the ledger under their respective heads.

ILLUSTRATION # 1

Following are the cash receipts and payments of Messer Amjad and Ali for the month of October 2004.

October 1	Cash in hand Rs. 15,000.
October 6	Purchased merchandise for cash Rs. 2,000.
October 10	Received from Akbar Rs. 3,000.
October 18	Paid to Baber Rs. 1,000.
October 20	Cash Sales Rs. 4,000.
October 25	Paid for stationary Rs. 60.
October 30	Paid for salaries Rs. 1,000.
October 30	Purchased Office Furniture Rs. 2,000.

Required: Prepare Cash Book, and post into Ledger.

Solution:

MESSER AMJAD & ALI
CASH BOOK
For the month of October, 2004

Receipts — Payments

Date	Vr. No.	Description	Ref	Amount	Date	Vr. No.	Description	Ref	Amount
2004					2004				
Oct 1		Balance b/d		15,000	Oct 6		Purchases		2,000
Oct 10		Akbar		3,000	Oct 18		Babar		1,000
Oct 20		Sales		4,000	Oct 25		Stationary		60
					Oct 30		Salaries		1,000
					Oct 30		Furniture		2,000
					Oct 31		Balance c/d		15,940
				22,000					**22,000**
Nov 1				15,940					

LEDGER ACCOUNTS

PURCHASES

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
Oct 1	Cash	19	2,000				

AKBAR

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
				Oct 10	Cash	19	3,000

BABAR

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
Oct 18	Cash	19	1,000				

SALES

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
				Oct 20	Cash	19	4,000

STATIONARY

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
Oct 25	Cash	19	60				

SALARIES

Date	**Description**	**Ref**	**Amount Rs.**	**Date**	**Description**	**Ref**	**Amount Rs.**
Oct 30	Cash	19	1,000				

FURNITURE

Date	**Description**	**Ref**	**Amount Rs.**	**Date**	**Description**	**Ref**	**Amount Rs.**
Oct 30	Cash	19	2,000				

2. Two Column Cash Book

In some business, the receipt and payment of discount at the time of payment and receipt of cash is very usual. In order to avoid the separate record of discount allowed and received a column is provided along with the amount column on either side of cash book. This type of cash book is called as “Two Column Cash Book”. The discount allowed is recorded on debit (receipt) side and discount received on the credit (payment) side. The total of discount columns of both the dies are posted to ledger in their respective accounts separately.

<u>ILLUSTRATION # 2</u>

Following are the cash transactions of Mr. Amjad Ali.

2005

March 1	Cash in hand Rs. 2,000.
March 7	Received Rs. 190 from Irfan discount allowed Rs. 10.
March 12	Cash sales Rs. 1,000.
March 15	Paid Kamran Rs. 485 discount Rs. 15.
March 20	Purchased merchandise for cash Rs. 300.
March 25	Received from Irfan cash less 3% discount in settlement of his account Rs. 500
March 27	Paid Kamran Rs. 300.
March 28	Bought furniture for cash Rs. 100.
March 30	Paid rent Rs. 100.

<u>Required:</u> Prepare Two Column Cash Book.

MR. AMJAD ALI
CASH BOOK

Date	Vr. No.	Description	Ref	Discount Rs.	Amount Rs.	Date	Vr. No.	Description	Ref	Discount Rs.	Amount Rs.
2005 Mar 1		Balance b/d			2,000	2005 Mar 15		Kamran		15	485
Mar 7		Irfan		10	190	Mar 20		Purchases			300
Mar 12		Sales			1,000	Mar 27		Kamran			300
Mar 25		Irfan		15	485	Mar 28		Furniture			100
Mar 30		Total transferred to discount a/c		25		Mar 30		Rent			100
						Mar 30		Total transferred to discount a/c		15	
						Mar 30		Balance c/d			2,390
					3,675						**3,675**
April 1		Balance b/d			2,390						

3. Three Column Cash Book

As an enterprise makes most of the payments and receipts through bank, it is useful to provide a bank column on the receipt as well as payment side of the cash book. This helps the cashier to record and bank transactions, in one book. This type of cash book is called as “Three Column Cash book”.

While making entries in Three Column Cash Book, the following points should be noted: -

1. If the previous balance of bank is favorable, it is recorded on the debit side and if it is overdrawn, it is recorded on the credit side of the cash book in bank column.
2. When cash is paid into bank, it is written in cash column on the credit side and in bank column on debit side. When cash is drawn from the bank, it is entered on the debit side under cash and credit side under bank.
3. Whenever, any transaction effect both cash and bank, it is recorded on both sides of Three Column cash book as in 2 above. This type of entry is called as contra entry. It is so indicated by putting “c” in reference column. This entry is not posted into the ledger.
4. When any cheque is received from customer and paid into bank on the same day, it is entered on the debit side in the bank column.
5. When any cheque is received from the customer, but not paid into the bank on the same day, it is entered on the debit side of the cash column. On any

later date, when this cheque is paid into the bank, the bank is debited and cash is credited (contra entry).

6. When any payment is made by cheque, it is entered on the credit side in the bank column.
7. When any paid cheque is dishonored, it is credited to the bank account and recorded on the credit side.
8. When bank allows any interest, it is recorded on the debit side in the bank column.
9. Bank charges for collection are entered on the credit side in bank column.

At the end of periodical intervals, the cash book is balanced. The total of discount column on both the sides is posted to discount account. The balance of cash is checked by physical inspection, and that of bank balance is reconciled with the balance shown by pass book.

ILLUSTRATION # 3

From the following transactions prepare Three Column Cash book of Mr. Muhammad Rafiq for the month of December 2004.

2004	
December 1	Rs. 10,000 paid in by the proprietor on start of business.
December 2	Deposited Rs. 2,000 into the bank.
December 4	Purchased merchandise for cash Rs. 1,000.
December 6	An amount due to Qasim Rs. 500 for goods purchased on credit was settled by cheque after deducting 5% cash discount.
December 8	Sold merchandise for Cash Rs. 3,000.
December 9	Cash drawn from bank for office use Rs. 500.
December 10	Purchased merchandise for Rs. 1,200 less trade discount 5% and paid cash for the same.
December 12	Purchased furniture for Rs. 1,500 and payment made by cheque.
December 14	Received from Ghafoor a cheque of Rs. 1,950; discount allowed Rs. 50. The cheque is paid into the bank.
December 15	Cash sales Rs. 1,400 of which Rs. 1,200 was banked.
December 17	Karim who owed Rs. 500 on an invoice subject to 5% discount. Settled his account by cheque.
December 18	Cheque of Karim paid into the bank.
December 20	Paid to Arif Rs. 1,435 by cheque; discount received Rs. 15.
December 23	Paid rent by cheque Rs. 100.
December 25	Bank informed that cheque of Karim has been dishonored.

December 27 Purchased for cash an office safe Rs. 500.
December 29 Paid cash for private expenses of the proprietor Rs. 120.
December 30 Paid salaries in cash Rs. 540.
December 31 Paid cash into the bank Rs. 1,485.

SOLUTION:

MR. MUHAMMAD RAFIQ
CASH BOOK
For the month of December 2004

Receipts **Payments**

Date	Vr. No.	Description	Ref	Discount Rs.	Cash Rs.	Bank Rs.	Date	Vr. No.	Description	Ref	Discount Rs.	Cash Rs.	Bank Rs.
2005 Dec 1		Capital			10,000		2005 Dec 2		Bank	C		2,000	
Dec 2		Cash	C			2,000	Dec 4		Purchases			1,000	
Dec 8		Sales			3,000		Dec 6		Qasim		25		475
Dec 9		Bank	C		500		Dec 9		Cash	C			500
Dec 14		Ghafoor		50		1,950	Dec 10		Purchases			1,140	
Dec 15		Sales			200	1,200	Dec 12		Furniture				1,500
Dec 17		Karim		25	475		Dec 18		Bank	C		475	
Dec 18		Cash	C			475	Dec 20		Arif		15		1,435
Dec 31		Cash	C			1,485	Dec 23		Rent				100
Dec 31		Total transfer to discount a/c			75		Dec 25		Karim				475
							Dec 27		Office safe			500	
							Dec 29		Drawings			120	
							Dec 30		Salaries			540	
							Dec 31		Bank	C		1,485	
							Dec 31		Total transfer to discount a/c		40		
							Dec 31		Balance c/d			6,915	2,625
		TOTALS			**14,175**	**7,110**			**TOTALS**			**14,175**	**7,110**
Jan 1		Balance b/d			6,915	2,625							

Accounting Equation

Introduction

In the previous section, we have discussed the basic terms used in accounting. One of the most important terms among them is the Balance sheet. In this section, we shall further explain this term and show the effect of transactions on the Balance sheet.

Assets and Equities

Assets refer to all the valuables properties possessed by the business and the equities mean the claim against these assets. The equities are further divided into capital and liabilities. Capital refer to the owner's equity, which means the rights of the owners in the assets of the firm and liabilities refer to outside equities, which means the rights of the outsiders in the assets of the firm.

Balance Sheet Equation

When any asset is purchased, the owner not only acquires the property but also rights associated to that property. These rights in assets are equal to value of that asset. In accounting we refer these rights as claims against assets or equities. From this concept, the following equation is derived.

ASSETS = EQUITIES

As we know that a single proprietor cannot contribute all the required funds from his own pocket. He has to raise funds by means of credit purchases, loans from bank, friends and from many other sources. In this way the rights against the assets i.e. equities will be divided into owner's equities and outsider's equities. The outsider's equities etc are called as liabilities and owner's equities are called as capital. Therefore, the balance sheet equation can be written as under: -

ASSETS = LIABILITIES + CAPITAL

Illustration No. 1

1. Miss. Saima Butt started business of printing by introducing Rs. 200,000 in the name of SAIMA BUTT Printing Services. The effect of this transaction will be that the cash will increase in the business by Rs. 200,000 and owner's equity or capital of Miss. Saima Butt will also increase by the similar amount. The equation will appear as follows: -

ASSETS		EQUITIES
Cash	=	Owner's Equity
Rs. 200,000		Saima's Capital Rs. 200,000

It is important to note that while analyzing the business transaction of an enterprise, we are concerned with the business activities of the enterprise, which is treated as a distinct entity from its owners. Therefore, when the proprietor pays something in, it is treated as increase in business assets on one hand and increase in owner's equity or capital of the owner on the other hand. When the owner receives back something from the business, it is treated as decrease in owner's equity on one hand and decrease in the business assets on the other hand.

2. Saima Purchased Building for Rs. 100,000 and paid cash for the same. This transaction will change the composition of assets. The cash will decrease by Rs. 100,000 and building will increase by the similar amount. The equation will now be as follows: -

ASSETS				EQUITIES
Cash	+	Building	=	Saima's Capital
Rs. 100,000		Rs. 100,000		Rs. 200,000

3. Saima Purchased Machinery worth Rs. 150,000 from Amjad and paid Rs. 50,000 in cash. In this transaction, the assets (machinery) will increase by Rs. 150,000. The claim against this asset will be the owners up to 50,000 and outsiders (Accounts payable Amjad) Rs. 100,000. The cash will decrease by 50,000. Now the equation will be as follows: -

ASSETS				EQUITIES		
Cash	Building	Machinery		Saima's Capital	+	Liabilities
Rs.	Rs.	Rs.	=	Rs.		Accounts payable
50,000	100,000	150,000		200,000	+	100,000

4. Saima Purchased Material and Supplies for Rs. 30,000 for cash. The effect of this transaction will be increase in assets (materials and supplies) and decrease in cash equal to Rs. 30,000. The new equation will be as follows: -

ASSETS		EQUITIES		
Cash + Building + Machinery + Supplies		Saima's Capital	+	Liabilities
	=	Rs.		Account Payable
Rs. 20,000 + Rs. 100,000 + Rs. 150,000 + Rs. 30,000		200,000	+	100,000

ILLUSTRATION NO. 2

The following are the transactions of a business for the month of January 2004.

Jan. 1. Ali commenced a business by depositing Rs. 175,000 into a Bank Account.
5. Purchased Machinery for cash Rs. 125,000.
7. Purchase Building for Rs. 50,000 paying Rs. 15,000 cash and incurring liability of Rs. 35,000.
11. Sold a part of Machinery for Rs. 25,000 receivable within three months.
15. Purchased Office Equipment for Rs. 5,000 on account.
19. Received Rs. 5,000 as partial collection of accounts receivable.
25. Paid Rs. 7,500 as wages.
30. Services revenue due Rs. 50,000.

<u>Required:</u> Show the effect of the transaction on the accounting equation.

<u>SOLUTION</u>

<u>ACCOUNTING EQUATION</u>

ASSETS						EQUITIES	
	Bank Rs.	**Machinery Rs.**	**Building Rs.**	**Accounts Receivable Rs.**	**Office Equipment Rs.**	**Owners Equity**	**Liabilities A/C payable Rs.**
Jan.1	+175,000					+175,000	
5	-125,000	-125,000					
Balance	+50,000	+125,000				+175,000	
7	-15,000		+50,000				+35,000
Balance	+35,000	+125,000	+50,000			+175,000	+35,000
11		-25,000		+25,000			
Balance	+35,000	+100,000	+50,000	+25,000		+175,000	+35,000
15					+5,000		+5,000
Balance	+35,000	+100,000	+50,000	+25,000	+5,000	+175,000	+40,000
19	+5,000			-5,000			
Balance	+40,000	+100,000	+50,000	+20,000	+5,000	+175,000	+40,000
25	-7,500					-7,500	
Balance	+32,500	+100,000	+50,000	+20,000	+5,000	+167,500	+40,000
30				+50,000		+50,000	
Balance	+32,500	+100,000	+50,000	+70,000	+5,000	+217,500	+40,000
Total			**257,500**			**257,500**	

ILLUSTRATION No. 3

Moeed and Hassan own and operate a repair shop. At the beginning of the month the shop had the following assets: -
Cash Rs. 51,650 Accounts Receivable Rs. 1,950
Repair Supplies Rs. 1,850 Tools Rs. 11,275 & Truck Rs. 12,800
Their liabilities and owner's equity was as under: -
Accounts Payable Rs. 16,525 Capital Rs. 63,000

During the month following transactions were completed: -

(a) Paid one-month rent Rs. 2,000.
(b) Purchased repair supplies for cash Rs. 500.
(c) Paid for repairs supplies previously purchased on credit Rs. 2,250.
(d) Completed repair work and collected Rs. 500.
(e) Completed repair work of Tahir Rs. 15,000.
(f) Received payment from customer previously billed Rs. 3,250.
(g) Paid for Oil and Gas used during the month Rs. 200.

Required:

1. Arrange the assets, liabilities and owner's equity given in the beginning in an accounting equation.
2. Show the effect of the above transactions on the equation.

SOLUTION

ACCOUNTING EQUATION

ASSETS						EQUITIES	
	Cash Rs.	**Accounts Receivable Rs.**	**Repair Supplies Rs.**	**Tools Rs.**	**Truck Rs.**	**Owners Equity**	**Liabilities A/C payable Rs.**
	+51,650	+1,950	+1,850	+11,275	+12,800	+63,000	+16,525
(a)	-2,000					-2,000	
Balance	+49,650	+1,950	+1,850	+11,275	+12,800	+61,000	+16,525
(b)	-500		+500				
Balance	+49,150	+1,950	+2,350	+11,275	+12,800	+61,000	+16,525
(c)	-2,250						-2,250
Balance	+46,900	+1,950	+2,350	+11,275	+12,800	+61,000	+14,275
(d)	+500					+500	
Balance	+47,400	+1,950	+2,350	+11,275	+12,800	+61,500	+14,275
(e)		+15,000				+15,000	
Balance	+47,400	+16,950	+2,350	+11,275	+12,800	+76,500	+14,275
(f)	+3,250	-3,250					
Balance	+50,650	+13,700	+2,350	+11,275	+12,800	+76,500	+14,275
(g)	-200					-200	
Balance	+50,450	+13,700	+2,350	+11,275	+12,800	+76,300	+14,275
Total			**Rs. 90,575**			**Rs. 90,575**	

Accounting Equation for Merchandise Business: A merchandise business is one where the goods are purchased on a lower cost and they are sold on a higher price. The difference between sale and purchase is called as profit. This profit increases the owner's equities; therefore, it is added in the capital. When the goods are purchased, their cost price is recorded under "Merchandise Inventory" as addition on the asset side. If the price is paid in cash, it will reduce the cash balance on the asset side and it the goods are purchased on credit, it will increase the amount of account payable on equities side. When the goods are sold, the cost price in deducted form the "Merchandise Inventory" on the assets side, and profit is added to the capital on equities side. If the sale is on credit basic, it will increase the amount of accounts receivable and if it on cash basis, it will increase the cash, on the asset side.

ILLUSTRATION No. 4: **Show the effect of the following transactions on accounting equation in July 2004.**

July 1. Tahir commenced business with cash Rs. 55,000.
July 6. Merchandise purchased for cash Rs. 12,000.
July 7.Sold merchandise to Amjad for Rs. 5,600. Cost of this merchandise is Rs. 4,480.
July 9. Purchased merchandise from Zulfiqar Rs. 7,500.
July 11. Cash sales Rs. 1,250 (Cost Rs. 1,000)
July 15. Returned merchandise to Zulfiqar Rs. 150.
July 18. Credit Purchases from Hassan Rs. 2,500.
July 21. Merchandise returned by Amjad Rs. 125 (costing Rs. 100),
July 25. Gave away charity merchandise worth Rs. 100.
July 28. Purchased from Saima merchandise worth Rs. 1,800.
July 30. Proprietor withdrawn the merchandise worth Rs. 250 for personal use.

SOLUTION

ACCOUNTING EQUATION

	ASSETS			EQUITIES	
	Cash **Rs.**	**Merchandise Inventory** **Rs**	**Accounts Receivable** **Rs.**	**Capital** **Rs.**	**Accounts Payable** **Rs.**
July 1	+55,000			+55,000	
July 6	-12,000	+12,000			
Balance	+43,000	+12,000		+55,000	
July 7		-4,480	+5,600 =	+1,120	
Balance	+43,000	+7,520	+5,600 =	+56,120	
July 9		+7,500			+7,500
Balance	+43,000	+15,020	+5,600 =	+56,120	+7,500
July 11	-1,250	-1,000		+250	
Balance	+44,250	+14,020	+5,600 =	+56,370	+7,500
July 15		-150			-150
Balance	+44,250	+13,870	+5,600 =	+56,370	+7,350
July 18		+2,500			+2,500
Balance	+44,250	+16,370	+5,600 =	+56,370	+9,850
July 21		+100	-125 =	-25	
Balance	+44,250	+16,470	+5,475 =	+56,345	+9,850
July 25		-100		-100	
Balance	+44,250	+16,370	+5,475 =	+56,245	+9,850
July 28		-1,800			+1,800
Balance	+44,250	+18,170	+5,475 =	+56,245	+11,650
July 30		-250		-250	
Balance	+44,250	+17,920	+5,475 =	+55,995	+11,650
Total		**67,645 =**		**67,645**	

Ledger

Definition of Ledger

In ledger we bring together all the transactions relating to an account, to know the net increase/decrease in that particular item. For example, if we want to know the total purchases during a period, we can do so by adding all the amounts of purchases appearing on different dates in journal, on one page. While bringing the related transactions on one page, we are in fact preparing a ledger account. Thus we can say **"Ledger is a book, which contains a condensed record of all the business transactions".** In other words ledger is a book in which every account is allotted a separate page, and all the transactions relating to that account are written on that page in a summarized form.

Objectives of Ledger

Following are the main objectives of ledger: -

i. To classify the business transactions with a view to determine the real increase or decrease in any item during a particular period.
ii. To extract a trail balance for proving the arithmetical accuracy of the accounting record.
iii. To provide a record of all the business transactions relating to a particular item, as to examine it easily in case of need.

Forms of Ledges

The forms of ledger may differ from one firm to another due to the volume and nature of business. The two most popular and generally used forms of ledgers are discussed as under.

Periodical Balance Form

In this case the page of ledger is divided into two halves, the left half is meant for recording debit and right half for credit entries. As it takes the shape of "T", it is generally known as "T" account. This "T" account, has been discussed in previous section of this chapter in raw shape. The standard shape of this type of ledger is as under:

Title: ______________________ Account No. ______________________

Dr. **Cr.**

Date	**Description**	**Ref**	**Amount**	**Date**	**Description**	**Ref**	**Amount**

Method of Posting

a. Title of account means the name of person or thing or item for which the account is being maintained, e.g. cash, capital, Saima, rent, purchases, sales etc.

b. As we know that separate page is used for each account in ledger, each account is allotted a separate serial number, which is recorded at the top of the page against Account No: ____________.

c. The posting is ledger begins with the starting balance. This means balance of the account brought from the previous period. If the previous balance is debit, it will be written on the left side, and when it is credit, it will be written on the right side. The word "Balance" is written under description.

d. When an account is debited in journal, it is written on the debit side in the ledger. When an account is credited in journal, it is written on the credit side in the ledger. The debit amount is written on the left side and credit amount is written on the right side.

e. When the amount is to be debited, date, description, reference and amount columns of the left side are used, when an account is to be credited, all the columns of right side are used.

f. Under description column, other account i.e. account completing the double entry is written.

For explanation of the procedure, please see the following transaction and their posting into ledger: -

Jan. 1. Saima Butt started business with cash Rs. 70,000.

JOURNAL

Date	**Description**	**Ref**	**Debit Rs.**	**Credit Rs.**
2005 Jan. 1.	**CASH** Capital	1 41	70,000	 70,000

	Started business with cash			

LEDGER

CASH **Account No. 1**

Dr. **Cr.**

Date	**Description**	**Ref**	**Amount**	**Date**	**Description**	**Ref**	**Amount**
2005 Jan. 1.	Capital	1	70,000				

CAPITAL
Account No. 1

Dr. **Cr.**

Date	**Description**	**Ref**	**Amount**	**Date**	**Description**	**Ref**	**Amount**
				2005 Jan. 1.	Cash	1	70,000

Transaction 2

Jan. 2 Purchased merchandise for Rs. 20,000.

JOURNAL

Date	**Description**	**Ref**	**Debit Rs.**	**Credit Rs.**
2005 Jan. 2.	**PURCHASES** Cash Purchased merchandize for cash	61 1	20,000	 20,000

CASH **Account No. 1**

Dr. **Cr.**

Date	**Description**	**Ref**	**Amount**	**Date**	**Description**	**Ref**	**Amount**
2005 Jan. 1.	Capital	1	70,000	2005 Jan. 2.	Purchases	1	20,000

PURCHASES **Account No. 2**

Dr. **Cr.**

Date	Description	Ref	Amount	Date	Description	Ref	Amount
2005 Jan. 2.	Cash	1	20,000				

Running Balance Form

In this form, the date, description and reference columns are same for debit and credit entries. The amounts columns are provided separately for debit, credit and balance. Sometimes, the balance column is further divided into debit and credit. The standard form of running balance from ledger is as under.

Title: ___________________ **Account No: ___________**

Date	Description	Ref.	Debit	Credit	Balance	
					Debit	Credit
			Rs.	Rs.	Rs.	Rs.

Methods of Posting

(i) Title of account and A/C No is written at the top.

(ii) The date of transaction is written in the first column, both in case of debit and credit entries.

(iii) Under description column, the name of other account involved is written.

(iv) In case the account is debited in journal, the amount is written under debit column, and if the account is credited in journal, the amount is written under credit column.

(v) Compare the amount with the balance column, and insert the new balance under Dr. or Cr. As the case may be.

The previous illustrative entries will be recorded in running balance ledger as under: -

Entry No. 1

CASH Account No:1

Date	Description	Ref.	Debit	Credit	Balance

			Rs.	Rs.	Debit Rs.	Credit Rs.
2005 Jan 1	Capital	1	70,000		70,000	

CAPITAL **Account No: 41**

Jan 1	Capital	1		**Rs.** 70,000		**Rs.** 70,000

Entry No 2

CASH Account No: 1

Jan 2	Purchases	1		**Rs.** 20,000	**Rs.** 50,000	

PURCHASES Account No: 61

Jan 2	Cash	1	**Rs.** 20,000		**Rs.** 70,000	

Balancing the ledger:

As we have seen running balance form of ledger is balanced after every transaction. But in case of "T" shape ledger, every account is balanced after intervals, usually at the end of every month or quarter, or term.

The procedure of balancing this account is as under: -

(1) Add up both sides of the account.
(2) Find out the difference.
(3) Write the difference on the side, which is smaller.
(4) Add up both the sides again they must agree.
(5) The difference so placed is "Balance". If the debit side is heavier, the balance will be written on the credit side. This indicates as "Debit Balance" and will be credit, if the credit side is heavier. The balance is carried forward to the next period.

An example of "T" shape ledger is as under: -

ACCOUNTS PAYABLE
SULTAN

Account No. 31

Date	**Description**	**Ref**	**Amount Rs.**	**Date**	**Description**	**Ref**	**Amount Rs.**
2005				2005			
July 1	Balance b/d		1,500	July 3	Cash		1,500
July 5	Purchases		2,000	July 7	Purchases Ret.		500
July 17	Purchases		1,300	July 10	Cash		1,000
July 20	Purchases		3,200	July 19	Cash		1,200
July 22	Purchases		1,700	July 19	Discount		100
				July 25	Cash		1,500
				July 25	Discount		200
				July 31	Balance c/d		3,700
			9,700				**9,700**
Aug 1	Balance c/d		3,700				

CLASSIFICATION OF LEDGER

If the business is a large one and it is impossible to record all the accounts in one ledger. Sub-division of ledger is made as under: -

1. General Ledger: -

This is used to keep accounts of all Assets, Purchases, Sales, Returns and Allowances. The accounts in this ledger are arranged numerically. As index is provided in the beginning to indicate the page and number of particular account. Various accounts in these ledgers are grouped under appropriate heads, as they appear in the balance sheet.

2. Operative Expenses Ledger: -

This is to record all the expenses of enterprise. In this ledger the accounts are arranged in numerical order. The numbers are assigned as they appear in the income statement. An index is also added to make the tracing easy.

3. Accounts Receivable Ledger: -

This is to keep the accounts of customers. The accounts in this ledger are arranged alphabetically. Indexes of all the accounts are provided in the beginning. At the end of each term a schedule of accounts receivable is prepared. The total of accounts receivable is posted to the trial balance.

4. Accounts Payable Ledger: -

This ledger is used to keep the accounts of the supplier. This is also arranged in alphabetic order. An index is provided to indicate the number of accounts in ledger. At the end of each month a schedule is prepared. The total of accounts payable is posted to the trial balance.

ILLUSTRATION

Following are the transactions of SAIMA TRADING COMPANY.

2005	
July 1	Started business with Rs. 80,000.
July 2	Purchased building for cash Rs. 36,000.
July 3	Purchased machinery for cash Rs. 10,000.
July 4	Purchased merchandise on credit from Yaqboob Rs. 10,000.
July 6	Purchased merchandise for cash Rs. 5,000.
July 7	Paid carriage on merchandises purchased Rs. 200.
July 8	Sold merchandise for cash Rs. 7,000.
July 9	Paid cash to Yaqoob Rs. 5,000.
July 11	Sold merchandise to Farooq Rs. 10,000.
July 13	Received cash from Farooq Rs. 6,000.
July 14	Merchandise returned by Farooq Rs. 1,000.
July 15	Merchandise returned to Yaqoob Rs. 300.
July 17	Paid advertisement expenses in cash Rs. 1,000.
July 18	Paid insurance expenses Rs. 500.
July 20	Purchased office equipment from Zaheer Rs. 10,000.
July 25	Purchased merchandise on credit from Yaqoob Rs. 2,000.
July 26	Sold merchandise on credit to Zamir Rs. 3,000.
July 28	Paid carriage expenses Rs. 500
July 31	Paid salaries in cash Rs. 2,000.

Required:

1. Record the above transactions in General Journal.
2. Post them into Ledger.
3. Extract the balances of Ledger account at the end of month.

Date	Description	Ref	Debit Rs.	Credit Rs.
2005	Cash	1	80,000	
July 1	Capital	41		80,000
	Started business with cash			
July 2	Building	21	36,000	
	Cash	1		36,000
	Purchased building for cash			
July 3	Machinery	22	10,000	
	Cash	1		10,000
	Purchased machinery for cash			
July 4	Purchases	61	10,000	
	Accounts Payable – Yaqoob	31		10,000
	Purchased merchandise on credit			
July 6	Purchases	61	5,000	
	Cash	1		5,000
	Purchased merchandise for cash			
July 7	Carriage	64	200	
	Cash	1		200
	Paid carriage in cash			
July 8	Cash	1	7,000	
	Sales	51		7,000
	Sold merchandise for cash			
July 9	Accounts Payable – Yaqoob	31	5,000	
	Cash	1		5,000
	Paid cash on account			
July 11	Accounts Receivable – Farooq	15	10,000	
	Sales	51		10,000
	Sold merchandise on credit			
July 13	Cash	1	6,000	
	Accounts Receivable – Farooq	15		6,000
	Cash received on account			
July 14	Sales Return	52	1,000	
	Accounts Receivable – Farooq	15		1,000
	Merchandise returned by him			

July 15	Accounts Payable – Yaqoob Purchase Return Merchandise returned by him	31 62	300	 300
July 17	Advertisement Expenses Cash Paid expenses in cash	77 1	1,000	 1,000
July 18	Insurance Expenses Cash Paid expenses in cash	92 1	500	 500
July 20	Office Equipment Accounts Payable – Zaheer Purchased office equipment	23 32	10,000	 10,000
July 25	Purchases Accounts Payable – Yaqoob Purchased merchandise from Yaqoob	61 31	2,000	 2,000
July 26	Accounts Receivable – Zamir Sales Merchandise sold on credit	16 51	3,000	3,000
July 28	Carriage Cash Paid expenses in cash	64 1	500	 500
July 31	Salaries Expenses Cash Salaries paid in cash	94 1	2,000	 2,000

<u>Ledger Accounts</u>

CASH

Account No. 1

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 1	Capital	1	80,000	July 2	Building	1	36,000
July 8	Sales	1	7,000	July 3	Machinery	1	10,000
July 13	Farooq – A/R	1	6,000	July 6	Purchases	1	5,000
				July 7	Carriage	1	200
				July 9	Yaqoob – A/P	1	5,000
				July 17	Advance Exp.	1	1,000
				July 18	Insurance Exp.	1	500
				July 28	Carriage	1	500
				July 31	Salaries	1	2,000
				July 31	Balance c/d	1	32,800

			93,000				**93,000**
August 1	Balance b/d		32,800				

ACCOUNTS RECEIVABLE
FAROOQ

Account No. 15

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 11	Sales		10,000	July 13	Cash		6,000
				July 14	Sales Return		1,000
				July 31	Balance c/d		3,000
			10,000				**10,000**
August 1	Balance b/d		3,000				

ACCOUNTS RECEIVABLE
ZAMIR

Account No. 16

Dr. **Cr.**

2005			**Rs.**	2005			**Rs.**
July 26	Sales		3,000	July 31	Balance c/d		3,000
			3,000				**3,000**
August 1	Balance b/d		3,000				

BUILDING

Account No. 21

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 2	Cash		36,000	July 31	Balance c/d		36,000
			36,000				**36,000**
August 1	Balance b/d		36,000				

MACHINERY

Account No. 22

Dr. **Cr.**

Date	Description	Ref	Amount	Date	Description	Ref	Amount

			Rs.				Rs.
2005				2005			
July 3	Cash		10,000	July 31	Balance c/d		10,000
			10,000				**10,000**
August 1	Balance b/d		10,000				

OFFICE EQUIPMENT

Account No. 23

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 20	Zaheer (A/P)		10,000	July 31	Balance c/d		10,000
			10,000				**10,000**
August 1	Balance b/d		10,000				

ACCOUNTS PAYABLE
YAQOOB

Account No. 31

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 9	Cash		5,000	July 4	Purchases		10,000
July 15	Purchases Return		300	July 25	Purchases		2,000
July 31	Balance c/d		6,700				
			12,000				**12,000**
				August 1	Balance b/d		6,700

ACCOUNTS PAYABLE
ZAHEER

Account No. 32

Dr. **Cr.**

			Rs.				Rs.
2005				2005			
July 31	Balance c/d		10,000	July 20	Office equipment		10,000
			10,000				**10,000**
				August 1	Balance b/d		10,000

CAPITAL

Account No. 41

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 31	Balance c/d		80,000	July 1	Cash		80,000
			80,000				**80,000**
				August 1	Balance b/d		80,000

SALES

Account No. 51

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 31	Balance c/d		20,000	July 8	Cash		7,000
				July 11	Farooq – A/R		10,000
				July 26	Zamir – A/R		3,000
			20,000				**20,000**
				August 1	Balance b/d		20,000

SALES RETURN

Account No. 52

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 14	Farooq – A/R		1,000	July 31	Balance b/d		1,000
			1,000				**1,000**
August 1	Balance b/d		1,000				

PURCHASES

Account No. 61

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			
July 4	Yaqoob – A/P		10,000	July 31	Balance c/d		17,000
July 6	Cash		5,000				
July 25	Yaqoob – A/P		2,000				
			17,000				**17,000**
August 1	Balance b/d		17,000				

PURCHASES RETURN

Account No. 62

Dr. **Cr.**

Date	Description	Ref	Amount	Date	Description	Ref	Amount Rs.

			Rs.				
2005 July 31	Balance c/d		300	2005 July 15	Yaqoob – A/P		300
			300				**300**
				August 1	Balance b/d		300

CARRIAGE

Account No. 64

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005 July 7	Cash		200	2005 July 31	Balance c/d		700
July 28	Cash		500				
			700				**700**
August 1	Balance b/d						

ADVERTISEMENT EXPENSES

Account No. 77

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005 July 17	Cash		1,000	2005 July 31	Balance c/d		1,000
			1,000				**1,000**
August 1	Balance b/d		1,000				

INSURANCE EXPENSES

Account No. 92

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005 July 18	Cash		500	2005 July 31	Balance c/d		500
			500				**500**
			500				

SALARIES EXPENSES

Account No. 94

Dr. **Cr.**

Date	Description	Ref	Amount Rs.	Date	Description	Ref	Amount Rs.
2005				2005			

July 31	Cash		2,000	July 31	Balance c/d		2,000
			2,000				**2,000**
August 1	Balance b/d		2,000				

Bank Reconciliation Statement

Bank Balance

The summary of the bank balance procedure is as under: -

1. In a large business concern all the receipts and payments are made through bank. All the cheques received are entered in cash receipt journal and all the cheques paid are entered in cash payment journal. From these journals a cash account is prepared in ledger. The balance of cash account shows the balance of cash at bank at any time. This balance may be debit or credit. In case of debit balance, the trader has cash at bank, and in case of credit balance, he has overdrawn from the bank.

2. In a small business concern, where the cash book is kept for receipt and payment of cash, a separate column is provided for payment of cash into bank. The balance of bank is ascertained by balancing this column of cash book. This is called as balance as per cash book. The debit balance of cash book means the trader has cash at bank and credit balance of cash book means he has over drawn from the bank.

Bank Statement

The bank also supplies the periodical return to its customers for their transactions with bank. This statement may also be of the following two types: -

1. **Pass Book:**
   This is the copy of the depositor's account in the bank ledger. All the cheques drawn and paid into the bank are recorded in this book. When the cash or cheque is paid into the bank, it is credited in the pass book. When any cheque is issued, it is debited in the pass book. The balance of depositor's account is indicated as credit when in favor of the customer, and if the customer has overdrawn from the bank. It is shown as debit balance.

2. **Bank Statement**
   The bank usually sends a periodical return to its depositors, called as bank statement. This statement begins with the balance at the beginning of the period. The cheque/cash deposited by the customer are added, while cheques drawn by him are deducted. The bank charges, interest on overdraft (if any) for the period is also deducted. The remaining balance if in favor of the depositor is recorded as cash at bank, and if in favor of bank, is recorded as bank overdraft.

Reconciling the Bank Balance

The balance as shown by the bank pass book/bank statement must agree with the balance as shown by the cash book/cash account. But sometimes, it does not agree. The usual causes of disagreement are as under: -

A. **Un-presented Cheques**
   These are the cheques drawn by the depositor and are recorded in his book but not yet presented for payment to the bank. As such these cheques are not debited in the pass book, or deducted from the bank statement for the period. Due to which, the balance shown by the bank statement is overstated.

B. **Deposits in Transit**
   It is possible that cash sent to bank at the late hours and recorded in the cash book on the same day, may not be recorded in the bank statement prepared and sent on that day. Due to this, the balance as shown by the bank statement is understand.

C. **Un-collected Cheques/Drafts**
   When any cheque/draft is deposited in the bank, it is recorded in the cash book/cash receipt journal on the same day. These cheques/drafts are entered in the depositor's account only when they are collected by the bank. The bank collections takes sometime, the discrepancy arises, by which bank balance as shown by the bank statement is understand.

D. **Dishonored Cheques**
   The cheques deposited by the customers may be dishonored. The information for such dishonor may not have been received by the customer, and as such the balance shown by his own record is over-stated.

E. **Service charges**
   The bank usually debits the customer's account for the service charges for collection of cheques, drafts, etc. These service charges are entered by the customer in cash book/cash payment journal when the intimation is received. Until and unless they are recorded in cash book, the balance of bank as shown by cash book will be overstated.

F. **Miscellaneous charges and incomes**
   Sometimes, bank deducts trade expenses, interest on overdraft, etc. Similarly additions are made in the bank statement for interest given to the customer, or any other income. The entry for these sundry transactions is

made in the depositor’s books when intimation is received by him. As such the balance may disagree.

Besides the above reasons, there may be mistakes or error in the bank statement or in the depositor’s record, which may result into disagreement of both the balances.

Bank Reconciliation Statement

The customer usually prepares a statement to verify and check the bank record and find the cause of disagreement of the balances as shown by the bank statement/pass book and that shown by his own record. The purpose of preparing this statement is: -

A. To know the correct balance of cash at bank for recording in Trial Balance and Balance Sheet.
B. Necessary adjustments in bank balance be made prior to the end of term.
C. To know the errors, if any, in the record and to correct them in time.
D. To complete the record in cash book.
E. To know the entries regarding collections of cheques/drafts paid into bank.
F. To check the entries regarding the payment of cheques issued.

The statement prepared for the adjustment of cash balance after comparing the entries of pass book and cash book is shown as bank reconciliation statement.

Methods of Preparing Bank Reconciliation Statement

Following are method of preparing the bank reconciliation statement: -

1. Finding the adjusting balance.
2. Reconciliation of the balances.

1. Finding the adjusted balance

This means that the correct balance of cash at bank/bank overdraft be calculated after making necessary adjustments for errors and omission in cash book and pass book. The procedure is as under: -

(A) **Adjusted balance of Cash book:** The following steps are taken to find out the adjusted balance of cash book/cash in bank account.

a) Write the given balance of cash at bank at the top. If this balance is in favor of depositor (favorable), it is indicated as debit balance, while in case of overdraft it is indicated as credit balance.

b) Any income or receipt credited by the bank, but not so far been entered in cash book/cash receipt journal, is added to the debit balance and deducted from the credit balance.
c) Any collection of cheque or note or bill made by the bank, but not yet recorded in cash book/cash receipt journal, is added to the debit balance and deducted from the credit balance.
d) Any amount deposited by any customer direct into bank, but not yet recorded in cash book/cash receipt journal, is added to the debit balance and deducted from the credit balance.
e) Any amount or cheque deposited into the bank, but omitted to be recorded in cash book/cash receipt journal, is added to the debit balance and deducted from the credit balance.
f) Any error committed by the depositor which results in reducing the cash at bank balance is added to the debit balance and deducted from the credit balance.
g) Any error committed by the depositor which results in increasing the cash at bank balance is deducted from debit balance and added to the credit balance.
h) Any expense like bank charges, collection charges, interest on overdraft debited in pass book/bank statement are deducted from debit balance and added to the credit balance.
i) Any cheque or amount entered in cash book/cash receipt journal, but not actually deposited into the bank, is deducted from debit balance and added to the credit balance.

After the above adjustments, the correct balance of cash book will be ascertained. This balance must agree with the adjusted balance of pass book/bank statement.

(B) **Adjusted balance of pass book:** The method of finding the adjusted balance of pass book/bank statement is as under: -

a) The balance as shown by the pass book/bank statement is recorded first. If this balance is in favor of depositor (favorable), it is indicated as credit balance while in case of overdraft (un-favorable) it is indicated as debit balance.
b) The cheques deposited into the bank but not yet collected and credited by the bank are added to credit balance and deducted from debit balance of bank statement.
c) The cheques issued but not presented for payment are the outstanding cheques. The total amount of these cheques is deducted from credit balance and added to debit balance.

d) The cash deposited at late hours usually does not appear in the bank statement of the same day. The amount of such deposits is added to credit balance and deducted from debit balance.
e) Any error or omission committed by the bank which results in increasing the cash at bank is deducted form credit balance and added to debit balance.
f) Any error or omission committed by the bank which results in decreasing the cash at bank is added to credit balance and deducted form debit balance.

After the above adjustments, the correct balance of pass book/bank statement will be ascertained. This must agree with the adjusted balance of cash book/cash in bank account.

ILLUSTRATION # 1

On 31st December 2004, a trader has a balance of Rs. 4,320 as shown by his cash book, while the pass book shows a balance of Rs. 4,955 on the same date. On reconciliation of both the records, he finds that:-

a) A cheque of Rs. 2,000 issued to Jamil has not been presented for payment into the bank.
b) A cheque of Rs. 1,500 deposited into the bank for collection not yet been credited by the bank.
c) The bank has debited the amount for Rs. 80 as bank charges.
d) The bank has credited the account for Rs. 215 as interest on deposits.

Required: Prepared bank reconciliation statement to find out the adjusted balance of the cash at bank.

Solution:

A TRADER
BANK RECONCILIATION STATEMENT
As on 31st December 2004

(A)	Balance as per Cash book:	(Dr)	Rs. 4,320
	Add: Interest on deposits:		251
			4,535
	Less: Bank Charges		80
	Adjusted Balance (Dr)		4,455
(B)	Balance as per Pass book:	(Cr)	4,955
	Add: Cheques deposited but not collected:		1,500
			6,455
	Less: Cheques issued but not presented		2,000
	ADJUSTED BALANCE		4,555

ILLUSTRATION # 2

The following information have been ascertained from the books of Miss. Saima Butt as on 31st July 2004.

a) Balance as per cash book Rs. 6,000.
b) Cheques issued but not yet presented for payment Rs. 1,500.
c) Cheques deposited but not yet credited by the bank Rs. 2,400.
d) Bank charges as shown in the pass book Rs. 85.
e) Interest on overdraft charged by the bank Rs. 215.
f) Amount deposited by the customer direct in bank, which is not yet recorded in cash book Rs. 480.

g) Cheque of Rs. 235 deposited into the bank has been dishonored but no entry is made in cash book.
h) Cash deposited on the evening of 31st July Rs. 870, which is not entered in pass book.
i) Balance as per pass book Rs. 4,175.

Required: Prepare bank reconciliation statement finding the adjusted balance of cash at bank.

Solution:

MISS. SAIMA BUTT
BANK RECONCILIATION STATEMENT
July 31, 2004

(A)	Balance as per Cash book:		(Dr)	Rs. 6,000
	Add: Amount deposited by the customer:			480
				6,480
	Less:	Bank Charges:	Rs. 85	
		Interest on overdraft:	215	
		Cheque dishonored:	215	535
	Adjusted Balance:			5,945
(B)	Balance as per Pass book:		(Cr)	4,175
	Add:	Cheques deposited but not credited.		2,400
		Cash deposited late:		870
				7,445
	Less:	Cheques issued but not presented:		1,500
	Adjusted Balance:			5,945

ILLUSTRATION # 3

The bank statement of Amjad Ali Company indicates a balance of Rs. 2,119 as on March 31st 2005. The balance of cash in bank account is Rs. 1,552. The causes of disagreement are pointed out as under: -

1. The deposits made on March 31, were not recorded in bank statement Rs. 762.
2. The following cheques are outstanding: -
    a. Cheque no. 000256 for Rs. 626
    b. Cheque no. 000291 for Rs. 69
    c. Cheque no. 000293 for Rs. 438
3. A credit memo for note collected by the bank from Kashif Rs. 200 not recorded in cash receipt journal.

4. A debit memo for collection charges Rs. 4 is not recorded in the books.

Required: Prepare Bank Reconciliation Statement

Solution:

AMJAD ALI COMPANY
BANK RECONCILIATION STATEMENT
As on 31st March 2005

(A)	Balance as per Cash Account	(Dr)	Rs. 1,552
	Add: Note collected by the bank:		200
			1,752
	Deduct: Bank Charges		4
	Adjusted Balance: (Dr)		1,748
(B)	Balance as per Bank Statement:	(Cr)	2,119
	Add: Deposits in transit:		762
			2,881
	Less: Out-standing cheques:		
	Cheque no. 000256 for Rs. 626		
	Cheque no. 000291 for Rs. 69		
	Cheque no. 000293 for Rs. 438		1,113
	Adjusted Balance: (Cr)		1,748

ILLUSTRATION # 4

The bank statement of Chaudhry Brothers indicates a balance of Rs. 4,000 on September 30, 2004. The balance of cash in bank account of Chaudhry Brother's ledger on that date is Rs. 2,850. The following causes of disagreement are traced.

1. The deposits made on September 30, were not recorded in bank statement Rs. 300.
2. Outstanding cheques are Rs. 960.
3. Bank collected Rs. 500 from notes receivable.
4. The bank credited the amount of cheque deposited Rs. 420 the original amount of cheque was Rs. 440.
5. Collection charges on notes receivable Rs. 20.
6. A cheque for Rs. 680 issued in favor of owner has been recorded as 640 by the bank.
7. A cheque for Rs. 480 deposited into the bank was recorded as 440 in cash receipt.
8. A cheque for Rs. 750 issued for stationery purchased was recorded as Rs. 700 in cash payment journal.

Required: Prepare Bank Reconciliation Statement.

Solution:

CHAUDHRY BROTHERS
BANK RECONCILIATION STATEMENT
As on 30th September 2004

(A)	Balance as per Cash Account:	(Dr)		Rs. 2,850
	Add: Note collected by the bank			500
	Error in recording (480 – 440)			40
				3,390
	Less: Service Charges:	Rs. 20		
	Depositor's Error (750 – 700)	50		70
	Adjusted Balance:	(Dr)		3,320
(B)	Balance as per Bank Statement:	(Cr)		4,000
	Add: Deposits in transit:			300
	Error committed by the bank (440 – 420)			20
				4,320
	Less: Out-standing cheques:	Rs. 960		
	Bank error (680 – 640)	40		1,000
	Adjusted Balance:	(Cr)		3,320

SOFTWARE PART

The topics mentioned for the each software are to be covered in the course. The Principal/Instructor is advised to arrange appropriate reading material and software from the market and impart instructions accordingly. The hand on training on the software is a must.

- *Corel Draw*
- *Macromedia Flash*
- *Adobe Photoshop*

CONTENTS OF COREL DRAW
(To be Covered in "Computer Applications for Business" Course)

1. **Installation Process**

    - System Requirement
    - To install Corel Draw 11 from a CD

2. **What's New**

    - New Drawing Tools
    - New Shaping Tools
    - Enhanced Object Features
    - Converting Paragraph text to curves

3. **Corel Workspace**

    - New Graphic
    - Exploring the Toolbox
    - What is Pick Tool
    - Rulers

4. **Controlling Documents**

    - Page Background
    - Inserting New Pages
    - Naming Pages
    - Deleting Pages

5. **Creating Simple Graphics**

    - Line Tools
    - To Draw a Straight Line
    - To Draw a Curved Line
    - To Draw a Calligraphic Line
    - To Draw a Rectangle
    - Rectangle Corner Roundness
    - To Draw a Circle
    - Pie and Arc
    - To Draw a Polygon

- Converting a Polygon into a Star
- Shaping Polygons and Stars
- To Create a Spiral
- To Draw a Grid
- To Create Star Shapes
- To Create Callout Shapes

6. Colors and Fills

- Color Models
- Colors and Fillings
- Viewing Color Palettes
- Uniform Fill
- Fountain Fill
- Pattern Fill
- Texture Fill
- Mesh Fill
- To Remove a Fill

7. Text

- Adding Artistic Text
- Adding Paragraph Text
- Selection of the Text
- To Change text case
- Text Attributes
- Applying Color to the Text
- Format Text Dialog
- Character and Word Spacing
- To Convert Paragraph Text to Artistic
- Finding and Replacing Text
- Copying and Moving Text
- Checking Your Grammar and Spelling
- Using Quick correct

8. Printing

- To set Printer Properties
- Print Preview
- Imposition Layout Tool
- Printing Separations

CONTENTS OF MACROMEDIA FLASH
(To be Covered in "Computer Applications for Business" Course)

1. **Introduction**
    - Learning Flash Overview

2. **Create a Document**
    - Take a Tour of the User Interface
    - Change Background and Stage Size
    - Change Your View of the Stage
    - Add Graphics to the Stage
    - Test the Document

3. **Create Accessible Flash Content**
    - Set up Your Workspace
    - Specify that Your Document be Accessible to Screen Readers
    - Provide a Document Title and Description
    - Change Static Text to Dynamic Text for Accessibility

4. **Create an Application**
    - Set up Your Workspace
    - Copy Input and Dynamic Text Fields
    - Name Text Fields
    - Add and Name a Button Component
    - Declare Variables and Values for the Prices
    - Specify Values for Input Text Fields
    - Write an Event Handler for the Component
    - Test Your Application

5. **Work With Layers**
    - Set up Your Workspace
    - Select a Layer
    - Hide and Show Layers
    - Lock a Layer
    - Add and Name a Layer

- Delete a Layer

6. Draw in Flash

- Set up Your Workspace
- Select a Shape Tool
- Select Options to Create a Polygon
- Draw a Polygon
- Rotate the Shape
- Use the Cutout Feature
- Transform the Shape of Your Drawing
- Select and Add a Different Fill Color

7. Add Static, Input, and Dynamic Text

- Set up Your Workspace
- Create an Expanding Width Text Block
- Create a Fixed Width Text Block
- Edit Text and Change Font Attributes

CONTENTS OF ADOBE PHOTOSHOP 2004
(To be Covered in "Computer Applications for Business" Course)

1. Learning Adobe Photoshop 2004

- Working with Photoshop

2. What's New

- Adobe Photoshop for All Users
- Adobe Photoshop for Photographers
- Adobe Photoshop for Graphic Designers

3. Looking at the Work Area

- Using the Welcome Window
- Getting Familiar with the Work Area
- Using the Tool Box
- Using the Options Bar
- Using the Palette Well
- Using Tool Presets
- Viewing Images
- Correcting Mistakes
- Duplicating Images
- Using Rulers, Columns, the Measure Tool, Guides and the Grid
- Displaying Status Information
- Displaying File and Image Information
- Jumping Between Applications
- Previewing an Image in a Browser
- Customizing Keyboard Shortcuts
- Resetting all Warning Dialogs
- Closing Files and Quitting

4. Getting Images into Photoshop

- Working with Bitmap Images and Vector Graphics
- Understanding Image Size and Resolution
- Changing Image Size and Resolution
- Getting Images from Digital Cameras
- Working with Camera Row Image Files

- Scanning Images
- Creating New Images
- Using the File Browser
- Opening and Importing I*mages
- Placing Files

5. Producing Consistent Color

- An Introduction to Color Management
- Understanding Color
- Why Colors Sometimes don't Match
- Using Color Management to Produce Consistent Color
- Using the Photoshop Color Setting
- About Color Management Policies
- Customizing Advanced Color Management
- Creating Custom Grayscale and Spot-Color Profiles
- Creating a Viewing Environment for Color Management
- Soft-Proofing Colors
- Printing a Hard Proof

6. Working with Color

- About the Different Modes
- Adjusting the Monitor Display
- Converting Between Color Modes
- Converting Images to Bitmap Mode
- Converting to Indexed Color
- Using the Adobe Color Picker
- Using Other Color Pickers
- Using the Color Wheel

7. Making Color and Tonal Adjustments

- Before Making Colors and Tonal Adjustments
- Basic Steps for Correcting Images
- Using the Color Adjustment Tools
- Identifying Out-of-Gamut Colors
- Using the Levels Dialog Box
- Using the Curves Dialog Box
- Using the Eyedropper Tools in the Levels or Curves Dialog Box
- Using the Color Balance Command
- Using the Hue/Saturation Command

- Using the Photo Filter Command
- Using the Shadow/Highlight Command
- Using the Match Color Command
- Using the Replace Color Command
- Mixing Color Channels
- Using the Selective Color Command
- Making Quick Overall Adjustments to an Image
- Applying Special Color Effects to Images
- Sharpening Images

8. Selecting

- About Selections
- Adjusting Pixel Selections
- Softening the Edges of a Selection
- Moving, Copying, and Pasting Selections and Layers
- Using the Snap Command
- Saving and Loading Selections
- Deleting Selections

9. Transforming and Retouching

- Changing the Size of the Work Canvas
- Rotating and Flipping Entire Images
- Cropping Images
- Transforming Objects
- Retouching and Repairing Images

10.Drawing

- About Shapes and Paths
- Using the Shape Tools
- Editing Shapes
- Using the Pen Tools
- Working with Paths
- Converting Between Paths and Selection Borders
- Adding Color to Paths

11.Painting

- Using the Painting Tools
- Using the Art History Brush Tool

- Working with Brushes
- Setting Options for Painting and Editing Tools
- Erasing
- Using the Gradient Tool
- Using the Paint Bucket Tool
- Filling and Stroking Selections and Layers
- Creating and Managing Patterns
- Using the Pattern Maker
- Choosing Foreground and Background Colors

12. Using Layers

- About Layers
- Working with Layers
- Using the Layers Palette
- Creating Layers and Layer Sets
- Working with Layered Images
- Distributing Layers
- Managing Layers

13. Applying Filters for Special Effects

- Using Filters
- Using the Filter Gallery
- Applying Filters Individually
- Blending Filter Effects
- Defining Undistorted Areas
- Tips for Creating Special Effects

14. Printing

- About Printing
- Printing Images to a Desktop Printer
- Printing Part of an Image
- Printing Vector Graphics
- Using Color Management When Printing
- Printing Images to a Commercial Printing Press
- Printing Duotones
- Using Online Services

15. Automating Tasks

- About Actions
- Using the Actions Palette
- Recording Actions
- Playing Actions
- Setting Playback Options
- Editing Actions

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